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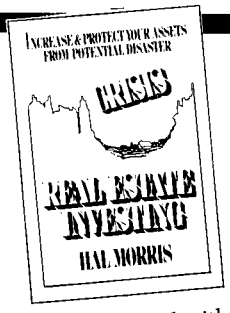

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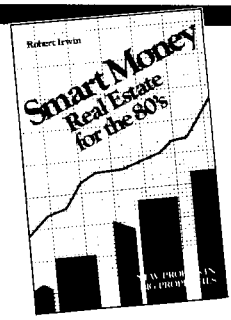

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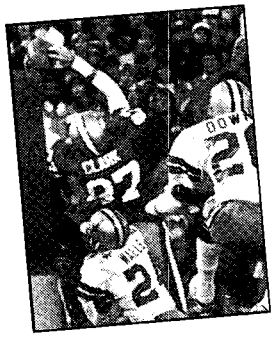

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Free Minds and Free Markets

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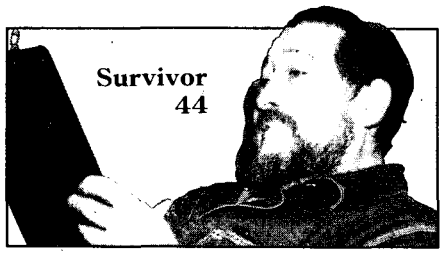

INTERVIEW WITH KARL HESS
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NOTEs

REASON's masthead gains several additions this month. Lynn Scarlett, a student of political economy and international relations and a reviewer of these topics in our pages, joins us in a part-time position as Book Review Editor. Lynn is completing her Ph.D. in political science at the University of California, Santa Barbara, and worked with the Foundation in preparing our book *Instead of Regulation* for publication.

I also welcome Bruce Bartlett to the ranks of our contributing editors. The author of *Reaganomics* and other books, Bruce is an economist and historian who is presently deputy director of the Joint Economic Committee.

Contributing Editor David Brudnoy gets a new assignment as REASON's theater critic—an upcoming new feature of our Arts & Letters section. The popular talk-show host, writer, and critic will report on major productions in Boston and New York.

With the return of senior fellow Tibor Machan, the Reason Foundation's conference activities have moved back into high hear. First on the agenda was the Seminar on Economics and Philosophy, cosponsored with the Foundation for Advanced Studies in Liberty and the Institute for Humane Studies and directed by Machan. Designed to bring together experts in economics, law, and philosophy, the seminar took place at Pepperdine University on March 27.

The second event will be a Liberty Fund symposium, "The Contributions of Natural and Positive Law to an Understanding of Liberty." The codirector with Machan is Ernest van den Haag, and the symposium will be chaired by J. Roger Lee, a former Reason Foundation summer fellow currently at the Center for the Study of Public Choice at Virginia Polytechnic Institute. The three-day event will take place in Santa Barbara April 29 through May 1.

Finally, to inaugurate the Foundation's fourth annual Summer Research Seminar, in June we will conduct a four-day conference on Culture and the Free Society, the theme of this year's 10-week summer session.

In January I attended the inaugural conference of what could become a very important institution. Called the Shavano Institute, it's the brainchild of George Roche, president of Hillsdale College—the determinedly independent college that has succeeded in warding off federal regulation by refusing to take government money (see "The College That Told Uncle Sam Where to Go," REASON, Aug. 1972). What Shavano aims to do is to *market* the research products of free-market, limited-government think tanks (for example, the Heritage Foundation, the Manhattan Institute, the Pacific Institute, and the Reason Foundation).

Roche has two primary target audiences in mind and corresponding channels of distribution. The first target is groups of key opinion leaders and decisionmakers, and the medium will be executive seminars, to be held in restful surroundings in the Colorado Rockies. I've been invited to lecture at one of the first of these, in May. The other target audience is much broader: cable-TV viewers. Roche has made a deal with Ted Turner's "superstation" WTBS to produce a series of one-hour debate programs on current public policy issues. Called "Counterpoint," the program is expected to debut in May with a debate on the nuclear arms race, followed by another on what's happened to the bottom rungs on the ladder of economic opportunity. You can get more information on Shavano by writing its executive director, John Andrews, at Hillsdale College, Hillsdale, MI 49242.

Ludwig von Mises fellowships in the humanities and social sciences are now available for Ph.D. candidates and postdoctoral researchers. Named after the dean of the Austrian school of economics, the fellowships are a project of the Center for Libertarian Studies. Information is available from Dyanne Petersen at CLS, 200 Park Avenue South, New York, NY 10003.

We are very pleased to announce the creation of the Reason Foundation Endowment Fund, launched with a $1,000 donation from one of our supporters. The idea is to build up an ongoing pool of assets, with the principal kept intact and the earnings providing income to the Foundation. Nearly all universities and some of the more well-established research institutes have such endowments. We welcome contributions earmarked for the Endowment Fund—a long-term investment in the future of our work.

—R. P.

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EDITORIAL

Slash the Deficit!

Congressional bleating and moaning about $100-billion budget deficits is a sick joke. While intoning cries of doom and disaster, our illustrious representatives are falling all over themselves with handouts-as-usual: synfuel boondoggles (despite a worldwide oil glut), cheap loans for middle-class college students, outrageous farm subsidies, the Clinch River breeder reactor... you name it.

And the Reagan budget is scarcely better. While proposing cuts in numerous small programs, it has left virtually untouched the ballooning Social Security and Medicare programs. These two *alone* account for some $229 billion! And Reagan has given the military a virtual blank check. Even the *Army Times* was moved to complain that "the Pentagon seems to be saying, 'We want it all.' By submitting such a budget request, the administration risks destroying the delicate consensus on national defense."

Both the administration and Congress—when judged by action, not talk—seem blithely oblivious to the stark reality of $100-billion federal deficits. What does it really *mean* to have the federal budget chronically in the red by such huge amounts? Quite simply, it means that the federal government is out of control. Like a senile old fool who cannot say no to his grasping children, the government continually gives out more goodies than it's willing or able to pay for.

Over time, continuing deficits wreck the economy. Either they are monetized by the Federal Reserve and we get ruinous inflation, or the Treasury sucks the lifeblood of capital out of the economy's veins, crowding out private investment. So instead of investing in productive new technology, Americans have to buy government bonds to pay for peanut subsidies, M-1 tanks that don't work, and annual Social Security increases twice as large as the average *working* person's raise.

Investors have finally wised up to this insanity. Their response to an out-of-control government is to demand *real* interest rates of about 8 percent rather than the traditional two to four percent. That's why newly issued corporate bonds must offer 15 or 16 percent interest, even though inflation is "only" 7 or 8 percent. Only a fool would still make long-term investments at 10 or 12 percent when chronic deficits threaten either renewed inflation or a decimated private sector.

Ronald Reagan's original idea seemed to be to attack the heart of the government-out-of-control problem. His principal weapon was *not* to be direct budget cuts. Instead, his supply-side strategy called for making two kinds of end runs around the big spenders.

The first was to decouple federal tax revenues from inflation. The three-year income tax rate reduction was designed to offset the effects of bracket creep and rising Social Security taxes. Although it would have an incentive effect, by keeping people's real tax burden from rising, its main effect would be to "cut off the allowance" of a spendthrift Congress. And the addition of tax-bracket indexing in 1985 would make the change permanent.

Without quite realizing what it was doing, Congress bought the whole package. And overnight, the nature of congressional debate changed—from where to increase spending to where to *cut.* This aspect of Reagan's program succeeded brilliantly.

The second stratagem was "the New Federalism": the transfer of dozens of programs to state and local levels. While the official rationale speaks of greater local control, the real purpose is to shrink the role of government. Despite polls showing that 77 percent of the people think that welfare, education, and health programs should be administered by state or local governments, the odds are that local governments will decide to scrap many of the programs.

Critics of the New Federalism, like economist John Reed of Arthur D. Little, point out that local governments "don't have the good money machine. The feds have that." *But that is precisely the point.* Without the ability to print money or destroy the economy by continual deficits, state and local governments will have to stand up to the special-interest lobbyists and decide if the myriad programs are really worthwhile. And they may find a surprising degree of support for phasing them out. New Age guru Kirkpatrick Sale, for one, applauds the idea of the New Federalism, saying that federal welfare programs are "subversive of what should be family-community-guild responsibilities."

Unfortunately, Reagan's game plan does not go far enough. By exempting most entitlement programs from cuts and by letting the Pentagon run wild, Reagan has *invited* calls for increased taxes to reduce the deficit. His own Treasury secretary recently launched a trial balloon that the hard-won 1985 tax-bracket indexing might be "negotiable." And the Business Roundtable has proposed "delaying" the 10-percent income tax rate cut scheduled for 1983. Members of Congress from both parties are suggesting all manner of new taxes.

But there are cooler heads around. Sixty-two senators are on record in support of a constitutional amendment requiring a balanced budget *and* a federal revenue limit, and the odds are high that Congress will soon enact it.

While the amendment would not go into effect until ratified by three-fourths of the states, its passage should give Congress the backbone to get *serious* about cutting spending. Simply freezing all cost-of-living allowances in Social Security, Medicaid, Medicare, and other entitlement programs for a year would save *$24 billion.* Real cuts in energy and agriculture subsidies could save billions more. And a serious program of selling off federal lands could save several hundred billion dollars over the next few years.

Public support for such measures would be strong. In January, a Sindlinger poll on how to cut the deficit found that only 18 percent think taxes should go up, while 53 percent favor cutting social programs. Asked if they favor or oppose budget cuts to reduce the deficit, a full 79 percent said "cut."

What the markets are saying via interest rates the people are saying directly. We cannot tolerate out-of-control government. That's what the deficit means. And that's why it must be ended.

Robert Poole, Jr.

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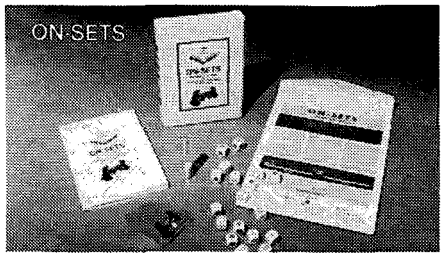

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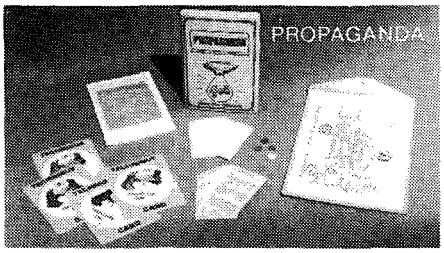

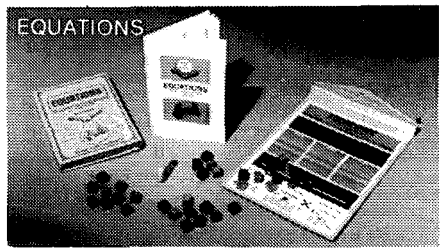

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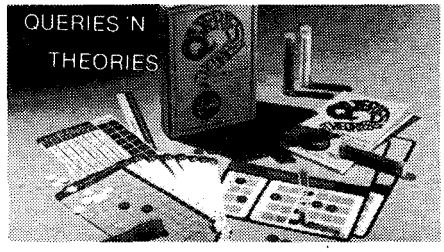

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Letters

Fascism à la CED

Justin Raimondo's "Inside the CED" (Feb.) should be mailed to all the subscribers of *Mother Jones* and its ilk. For several years now in my Principles of Economics classes I have used the concept of economic democracy as a modern-day example of fascist thinking. The CED, like all "leftist" groups, criticizes "the separation of ownership from control in capitalist corporations." However, their clever solution is to maintain private ownership, but with public control. Tom and Jane, Benito and Adolf would be proud.

Frank Vorhies
University of Colorado
Boulder, CO

CED Unveiled

The long-term threat to individual liberty posed by the programs of the Campaign for Economic Democracy is not widely recognized. Thanks for your cover story (Feb.).

Regarding the CED's proposal for a "split-roll" property tax: its purpose is not to lower the tax on residential property. Its purpose is to increase taxes—a 75-percent increase in the tax rate on income-producing property. Since all costs of doing business must be passed on to customers, so will these higher taxes (just another cost of doing business). Thus this CED program guarantees both larger government and higher rents.

Mike Ford
Mill Valley, CA

Heil, Hayden!

Tom Hayden sounds like a Nazi to me. Contrary to popular belief, the Nazis were not a party of the right. Their name is a contraction of National Socialism.

The dispute in Germany before World War II was between the socialists and communists, with the socialists winning. Hitler modeled his concentration camps on Stalin's. The only difference between Stalin's Russia and Hitler's Germany was that, instead of *taking over* all property in Germany, Hitler controlled it. He was just as totalitarian as Stalin....

Harriet S. Nelson
Bothell, WA

Stockpiling Points

While peppered with many flashes of insight, on the whole Laurence Beilenson and Kevin Lynch's "Should We Spill Blood over Oil?" (Feb.) seems to me a bit sad. That's partly because of its conclusion ("Far better to take the bus"), which offers a very sickly vision of the future, but mainly because of its perspective on oil storage. "Americans" (meaning the federal government) "can insulate themselves by stockpiling..." write the authors. Yes, indeed; but why on earth bring the government into all this?

Rather, the Pentagon should wholly disengage from the Persian Gulf, thus showing the Russians that we mean peace and the oil companies that they have no taxpayer-funded umbrella. That would equally well remove the threat of world war but would properly leave to free, competitive enterprises the task of deciding how to stand on their own feet. One solution would be for them to stockpile oil; but being experts with their own money at stake, we can be confident that they will find a better one if it exists.

Is REASON *laissez-faire* or not?

A. J. Davies
Ridgefield, CT

The editors reply: As the article said, to achieve security against a Middle East oil cutoff, Americans need to stockpile, "whether in government or private reserves." While the focus of the article was on the futility of the Reagan administration's stance, the reference to private reserves was meant to remind people that this need not be a government function. It is indeed unfortunate that government has preempted private efforts in this area.

Free-Market Failings?

Five years ago I was a speaker at a conference on cooperation and competition in education. At the time I was astonished at how far "left" my views regarding the great need for cooperation as a motive system within the educational system seemed to be....

I am now starting a book on the balance between cooperation and competition throughout our social structures and recently have been buoyed by much of what I've read in REASON. However, in your February Letters column you rebut M. W. Ecker by saying that those who choose one lifestyle should not be coerced into subsidizing those who choose another. Perhaps coercion by government regulation is not the answer, but unless we want to start commuting to our farms (thereby compounding our urban problems) we have to hope some will choose "country life."

Free-market forces appear too slow to redress the (temporary?) imbalances that make one section of our society implausibly rewarded (witness the increasingly distorted incomes of health practitioners). Certainly this is not sufficient reason to abandon free-market practices, but they *can* be buttressed with a little help from "state" intervention. How much help? Well, we've *always* had to pay someone else to do what we didn't want to or couldn't do. *Direct* payment for certain performances, rather than contradictory subsidies (for example, subsidized water to grow crops that the farmer receives a subsidy to plow under), is an interventionist solution that still can work. Payments can go to the producer, transporter, merchandiser, or even the buyer of a given item without rewarding sloppy practices.

Larry Hourany
Walnut Creek, CA

The editors reply: As a supposed instance of a free-market phenomenon, Mr. Hourany's example of the business of health care is ill-chosen. One need only look at how the professional societies, with state sanctioning, control the supply of health care by carefully restricting the availability of health-care education—to say nothing of the partnership between the societies and the state in licensing dentists, physicians, etc.—to understand why such professionals appear to be "implausibly rewarded."

And, in any case, who is to judge when a reward is implausible? In a free society, people pay for goods and services because they want or need them; so traders are rewarded according to how relatively valuable or desirable their goods and services are to those who choose to buy them.

Mr. Hourany observes, correctly, that most of us are both unable and unwilling to do *everything* required for living as we do. So we trade with others in order to have things done and provided for us.

But we can distinguish this type of obligation—call it natural necessity—from that which is imposed upon us by social institutions wielding force or the threat of force. Yet it is the latter—that is, institutional command based on coercive power—to which Mr. Hourany refers and which he offers as a basis for further institutional coercion. That we have suffered coercion at the hands of the state in the past is no argument for putting up with it or allowing more of it in a different form.

Free-Market Feats

In the Letters column of your February issue, a Mr. Michael Ecker made the point that laissez-faire capitalism may be all right, but it would never provide mail service to rural areas. My residence being 42 miles from the nearest market center, that thought has also bothered me, but no more—not since United Parcel Service came to Montana a few years ago.

On any given day here one may encounter the brown panel trucks of UPS busting snow drifts on sections of rural roads and on private lanes *miles* beyond the last rural mailbox, sometimes for the purpose of delivering a single parcel to a remote ranch.

This penetration of rural Montana by a private delivery system tells me something: that multipurpose local delivery networks might well evolve in remote areas *if* private contractors could merge revenues from several sources—mail, perishables, farm machinery parts, parcels from UPS, Greyhound, freight and air carriers, etc.

In Montana, the retirement of the railroads from local markets and the increase in private transportation costs attributable to energy tend to contribute to further isolation of our rural areas. It is indeed ironic that "free" mail service is part of the problem, because revenues from carrying the mail are not available to any would-be multipurpose delivery contractors.

Robert T. Stevens, Jr.
Bozeman, MT

Humean Writes

Tibor Machan's essay, "The Corruption of Ideas" (Feb.), is written with fine, limpid style. I am reminded a bit of Hume in his leisurely combining of the highly controversial and the complacently good-humored, the philosophical and the down-to-earth or, as Hume calls it, "the popular." I am referring, of course, to Hume in the *Essays*. It is all very effective.

Though I disagree with Machan on the ultimate source of rights and freedom, I do agree that the words for these things are to be used sparingly and even niggardly, as opposed to the "corrupters," who misuse the power contained in them for ulterior purposes. I hope he will in a subsequent essay point out the pernicious but hidden consequences that flow from such misuses (for example, "pigs' rights") and just how and why these are misuses—but, of course, in the same low-keyed style of "The Corruption of Ideas."

John Nelson
Boulder, CO

One Vote for Direct Democracy

I was disturbed by the statement in Tibor Machan's article, "The Corruption of Ideas" (Feb.), that "constitutional democracy whereby the violation of people's rights is not open to a vote is far more valuable than wholesale democracy." If we understand the term "wholesale democracy" to mean direct democratic rule by the majority—as opposed to representative democracy—the problem with the statement is that wholesale democracy has many features favorable to a free society. What was Proposition 13 but wholesale democracy? It is difficult to think that people would easily vote themselves into slavery or vote in the socialistic schemes and militaristic policies that have been imposed upon us. There is something to be said for direct democracy.

The moment a constitution limits wholesale democracy, the people can no longer protect themselves within the system against the ensuing problems. Sure, they can vote for representatives; but the subsequent lobbyists and special-interest groups become almost impossible to counter. The saying, "Rockefeller owned the best legislature money could buy," is not without foundation; and the situation which it represented—

(Continued on p. 61)

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b r i c k b a t s

Any law that says it's okay to buy fresh tomatoes—but illegal for a store to sell canned tomatoes—on a Sunday, is pretty silly. And nowhere on earth are Blue Laws sillier than in England, the birthplace of the blues. You can buy whiskey and porno magazines on Sunday, but it's verboten to sell a copy of the Bible. Chinese take-out restaurants can sell that British favorite fish and chips, but the law says fish and chips shops must stay shut on Sundays. Had enough yet? A mother may buy a bottle of gin on Sunday, but she can't legally purchase milk for her baby's bottle. Reformers are giving it another go at abolishing these foolish regulations, but they aren't hopeful. This is the 10th time in the past 20 years they have tried to curb the curbs, going down to defeat each time because of massive lobbying campaigns waged by the Lord's Day Observance Society and the Union of Shop, Distributive and Allied Workers. A union spokesman says the bill to abolish the blues would "open the floodgates to a retail free-for-all which is socially and morally unnecessary." Funny, we thought England's economy could use as many free-for-alls as it can get.

Culture lovers all over the world were distraught to learn of the death of Mikhail A. Suslov, hard-line Kremlin ideologist extraordinare. Among Suslov's "greatest hits" were the crushing of dissent under Stalin, the crushing of the Hungarian rebellion in 1956, the crushing of Czech liberalization in 1968, and—still No. 1 on the charts with a bullet—the crushing of the Solidarity movement in Poland. The free world owes Suslov a debt of gratitude, however. Without his benevolent contributions to Soviet life, Baryshnikov, Nureyev, Rostropovich, and a long list of other artists who defected to the West never would have left the workers' paradise.

Those cold-hearted budget slashers in the Reagan administration have finally gone too far. Why, they're actually questioning whether "public interest" lawyers who sue the government should be able to collect up to $110 an hour from the public trough. A few years ago, a benevolent Congress authorized judges to order "the government" (a.k.a. the taxpayers) to ante up for legal fees of private attorneys who sued the feds and won under almost 100 environmental, civil rights, and consumer laws. Recently, the Environmental Protection Agency was ordered to pay $99,534.50 in legal fees to the Environmental Defense Fund, which sued about new regulations for PCBs. The payment includes $9,543.50 for "time spent in preparing the application for fees," according to the judge's ruling. Now that Reagan has suggested these liars, er, excuse me, lawyers, should receive only about $25 an hour for their do-gooding efforts, you can hear the moans echoing throughout the capital. A Budget Office spokesman says, "These guys equate the national commitment to justice with the extent to which the taxpayers subsidize them personally."

"WAIT A MINUTE—AREN'T THOSE THE GUYS WHO BUILT THIS PLACE?"

New York City housing clerk Stanley Wright made just one little mistake, and now everyone wants his head on a stick. Stanley hasn't been feeling too well lately, suffering from a variety of ailments that struck 21 times in his first 10 months on the job. Each time, he dutifully presented his supervisor with a signed doctor's note to back up his absence. None of his superiors ever questioned the validity of his claims until Stanley's 22nd illness, another outbreak of that annoying lower back pain. But this time, when Stanley was excused in a note signed by a gynecologist, crack city inspectors became suspicious. After checking it out, the officials found that *all* of the doctor's notes Stanley had turned in were, well, doctored. Stanley's been suspended while the district attorney prepares the fraud case. Now he's *really* feeling ill.

The cheapest barber shop in Washington is located in the House of Representatives. A haircut and hot comb is price-fixed at $3.50 thanks to a $90,000-a-year federal subsidy. Actually, progress has been made in the past few years. Haircuts used to be free of charge for our solons when the subsidy was $240,000 a year. But with the Reagan administration taking a bowl and shears to the federal budget, the House Services Subcommittee is surveying prices in the city's tonsorial open market to measure whether our statesmen should pay more for their hairdos.

Haircuts aren't a problem in Leningrad, but shaves are. Only clients who bring their own blades to the Leningrad barbers are shaved, according to the Soviet labor newspaper *Trud*. There is a shortage of razors in the Soviet city, even though a nearby factory produces 400 million blades a year. The safety-razor factory, a British-Swedish-Russian project, produces the best blades in the nation, but they're mainly for export. The Fidel Castro look-alike contest will be held next week.

—MARK EDWARD CRANE

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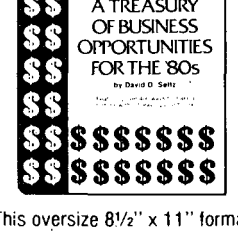

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TRENDS

RIDING THE WAVE OF COMPETITION

At a time when federal operating subsidies for mass transit systems are being phased out, the private sector is gradually being allowed to step in to pick up the slack. Notable developments are occurring in Chicago, New York, and Los Angeles.

In the Windy City, shared-ride taxi service was legalized in December. Cab drivers now have the option of offering lower-cost service, based on zone charges, to passengers willing to share rides with people going to other destinations. Cabs offering this service identify themselves via an orange pennant on the radio antenna or by a shared-ride sign in the front window. Columnist Bob Greene reported that during an unexpected late-afternoon December snowfall, the system worked like a charm, providing cabs to all who wanted them under circumstances that would normally have been nightmarish.

Chicago is also benefiting from the deregulation of private ride-sharing arrangements. Under a state law enacted last fall, owner-operated commuter vans were exempted from local licensing and taxation and from all rate regulation, so long as the fares charged simply cover operating expenses. For-profit commuter vans and buses are still prohibited from offering services to the general public, but private subscription bus services continue to boom.

In New York City, the de facto monopoly of the city's 11,787 medallion taxis is being challenged by limousine operator William Fugazy. In February, Fugazy began operating 50 radio-equipped Chrysler New Yorkers as the Fugazy Express. He plans to add 100 per month, to a total of 6,000 vehicles. Fugazy says his fares will be competitive with those of the medallion cabs, although his cars will not be allowed to cruise the streets looking for fares, being restricted to radio calls. At present, only 3,000 of the medallion cabs answer radio calls, so Fugazy's fleet represents substantial new competition in that segment of the taxi market. His 6,000 new legal cabs will join an estimated 30,000 nonmedallion cabs—a black-market response to the city's attempt to maintain a privileged position for the medallion cabs. The *New York Times* editorialized that the Fugazy Express could "prove to be the thin edge of a deregulatory wedge, demonstrating the virtues of competition for taxi services."

The Southern California Rapid Transit District (RTD), meanwhile, is also considering privatization moves in an effort to cope with federal cutbacks. A study of the RTD's express bus service by the Southern California Association of Governments found that this premium service, used mostly by business executives, is among the most highly subsidized of all transit agency's offerings. Comparing RTD's express buses with those of private (unsubsidized) express bus lines, the study concluded that costs would be reduced by 50 percent if private buses were used. Privatizing just 22 RTD express bus lines could save taxpayers $5 million a year. The *Los Angeles Times* has endorsed the proposal, as well as the idea of allowing private van or jitney services to fill in the gaps caused by other RTD cutbacks.

Urban Institute transit expert Ronald F. Kirby endorses such moves. In a recent interview, Kirby urged an end to municipal transit monopolies and the introduction of competition from private vans, jitneys, shared-ride cabs, and bus lines. "The monopolies that city bus companies have are a holdover from the streetcar era," says Kirby. "Competition should have been introduced into the system long ago."

TRICKLE-DOWN RESURRECTED

Trickle-down economics, a theory popular during the prosperous 1950s, is a pariah in the eighties. The theory—that as the rich get richer so do the poor—fell from intellectual grace when historians concluded that the prosperity of the Eisenhower years had fallen to the rich and middle class but had altogether bypassed a large population of impoverished Americans. Hence the advent of Lyndon Johnson's Great Society and the War on Poverty philosophy that only massive social-welfare spending can eradicate poverty.

Thus does Charles Murray, former chief scientist at the American Institutes for Research and now with the Heritage Foundation, present the roots of the current social policy orthodoxy. It is a view that Murray rejects, claiming that "the clearest, most persuasive explanation of what happened to poverty during the last three decades is: the trickle-down theory indeed works—and the Great Society's main claim to success is mostly artifact."

Using official government data, Murray shows that it is real growth of GNP, *not* increased social-welfare spending, that correlates with declines in poverty. In fact, writes Murray, "poverty has actually gotten worse as social-welfare expenditures have increased, when the effects of GNP are factored out of the equation."

The evidence Murray presents is compelling. During the 1950s, when social-welfare expenditures were relatively small, the extent of poverty declined. It dropped further during the '60s, an era of large social-welfare expenditures. But at the end of the 1970s, after a decade of *massive* social-welfare expenditures, poverty had *not* declined. Indeed, from a 1973 low of 11.1 percent, the number of impoverished Americans rose to 13 percent in 1980. The GNP data fill out the picture. In 1970, 1974, and 1975, real GNP went down; in those years and *only* in those years during the '70s did the percentage of Americans living below the poverty level increase. During the other years of that decade, poverty decreased. Real GNP dropped during two years (1954 and 1958) in the '50s, and it was precisely during those two years that poverty was on the upswing. Furthermore, GNP increased every year during the '60s, and poverty declined in each year of that decade.

According to Murray's analysis of the data—which are complete for the years 1947-78—a real GNP increase of $100 billion should statistically correlate with a 1.9 percent decrease in poverty (assuming that social-welfare expenditures are held constant). By contrast, from a $100-billion increase in social-welfare spending, writes Murray, "we can expect that the percentage of people living beneath the poverty level will increase—yes, increase—by about 1.2 points, when the effects of GNP are held constant."

Murray's analysis—which appeared in the February 21 *Register* (Orange County, California) as an adaptation from a forthcoming book published by the Heritage Foundation—concludes: "Since 1947, it has been our experience that increases in GNP produce reductions in poverty, under very different political and social conditions. It has been our ex-

perience that increases in social welfare expenditures are not associated with this effect."

SUPPORTING BRIDGES

Scarcely a month goes by without a newspaper or magazine article on the perilous condition of American bridges. Typical was the *Parade* article of February 28, 1982, pointing out that 223,200 of the nation's 524,966 bridges are either structurally deficient or functionally obsolete. Like most such articles, this one proposed no real solution, implying only that somehow more taxes would have to be extracted from people.

Yet unwittingly, the *Parade* article contained the key to solving the bridge dilemma: "Probably the best inspected bridges," wrote author Jack Harrison Pollack, "are operated by independent or semi-autonomous bodies that can spend their toll revenues on frequent inspections and repairs." New York's Triborough Bridge and Tunnel Authority, for example, maintains seven major bridges and two tunnels from its $600,000 a day in toll income. By contrast, city-owned Brooklyn Bridge is falling to pieces.

In other words, when governments (read, politicians) operate bridges, the likelihood is great that they will spend their money on sexy, vote-getting projects and ignore mundane matters like bridge inspection and repair. It is widely acknowledged that "deferred maintenance" is to blame for the sad state of our government-owned and -operated bridges.

Yet one journalist *has* understood this connection. Writing in the January/February 1982 issue of *Technology,* Jeanne McDermott asks the logical question: "Given high interest rates and severe cutbacks in public spending, why not convert bridges to private ownership?" Why not, indeed? McDermott cites the fabulously successful investor-owned Ambassador Bridge linking Detroit with Windsor, Ontario—and its competitor, the investor-owned Detroit-Windsor Tunnel. The bridge has a pretax cash flow of $6 million a year and is, needless to say, impeccably well maintained. It demonstrates, says McDermott, "that private ownership is feasible—possibly even attractive—because of the size of the cash flow and the tax write-offs."

There are several ways of privatizing existing bridges. One is simply to sell (or give) the deed to a private company that would charge tolls and keep it in good repair. Another is to set up a quasi-private toll authority that would contract out the operation of the bridge. A third option is the leaseback arrangement, already used by some firms to buy new buses for lease to transit districts. US Steel has expressed strong interest in using one of these options to build a replacement for the decaying Thompson Run Bridge in Duquesne, Pennsylvania. Because heavy trucks can no longer use the bridge, the 36-mile detour is costing the company over $1 million a year.

One problem with privatization is the need to charge tolls. Conventional toll booths cause traffic congestion. Moreover, not all bridges have enough traffic to generate attractive revenues at reasonable tolls. One answer to the latter problem is to have one firm own several bridges, with revenues from the busiest ones off-setting losses on the low-traffic ones. Just this principle has been used in Italy in the construction *and operation* of the "motorway" (intercity expressway) system by private companies. For example, the Autostrade Company was given a contract in 1968 to build and operate 700 kilometers of additional motorway in economically depressed southern Italy, to be financed by toll increases on the remainder of its 2,200-km system.

The toll-booth congestion problem is on the way to solution by automatic vehicle identification (AVI) technology (see "Rush-Hour Remedy," REASON, Jan.). The Port Authority of New York and New Jersey, operator of the George Washington Bridge and the Lincoln and Holland Tunnels, has an active AVI research program under way. It plans a pilot test in which 300 to 500 buses using the Lincoln Tunnel will be equipped with microwave-based AVI equipment. The Port Authority's Robert S. Foote expects AVI to be introduced to motorists as a "premium" system and considers its maximum potential to be equipping about half of all the vehicles using its bridges and tunnels. So those concerned about the privacy aspects of automated

Ayn Rand, R.I.P.

Long-time readers of this magazine know well that its inception was inspired by the works of Ayn Rand, who died on March 6 at the age of 77. The founders of the magazine, and many of those associated with it to this day, learned a great deal from Miss Rand's writings. More than that, many of our associates and staff have been inspired by her uncompromising identification of the human individual as a rational being in a natural world that is capable of being understood when clearly focused upon and as a being capable of attaining happiness when that understanding is applied to human conduct. REASON magazine, which through its name is openly beholden to Miss Rand's philosophical values, continues to be inspired by the leadership of her genius.

Miss Rand had always been extremely guarded in her support of ventures in the world of ideas over which she did not have complete control or whose staff she did not fully know and approve of. REASON had, accordingly, not been among the publications she recommended. But anyone familiar with her works can testify that she could only have been proud of what she had inspired in the magazine's content and editorial direction.

Ayn Rand never received the accolades she fully deserved from the culture whose distinctive essence she has done more than anyone else to ground philosophically and to highlight in literature. It is impossible to tell whether the future will remedy this failure. Suffice it to note that in the community of philosophical scholarship, there is beginning to emerge an interest in Miss Rand's work. In the next several years, numerous journals and publishers will come out with discussions of Miss Rand's ideas, lessening to some extent the shameful neglect to which she has been subjected not only by left-wing collectivists but by the supposed defenders of the American philosophical/political tradition, namely, conservatives. We wish to mention in particular one such development in the field of scholarly publishing, an anthology edited by Profs. Douglas Den Uyl (Bellarmine College, Louisville) and Douglas Rasmussen (St. John's University, Jamaica, New York), *Reason and Freedom: Essays on the Thought of Ayn Rand* (University of Illinois Press), due to be published in 1983.

—T.R.M.

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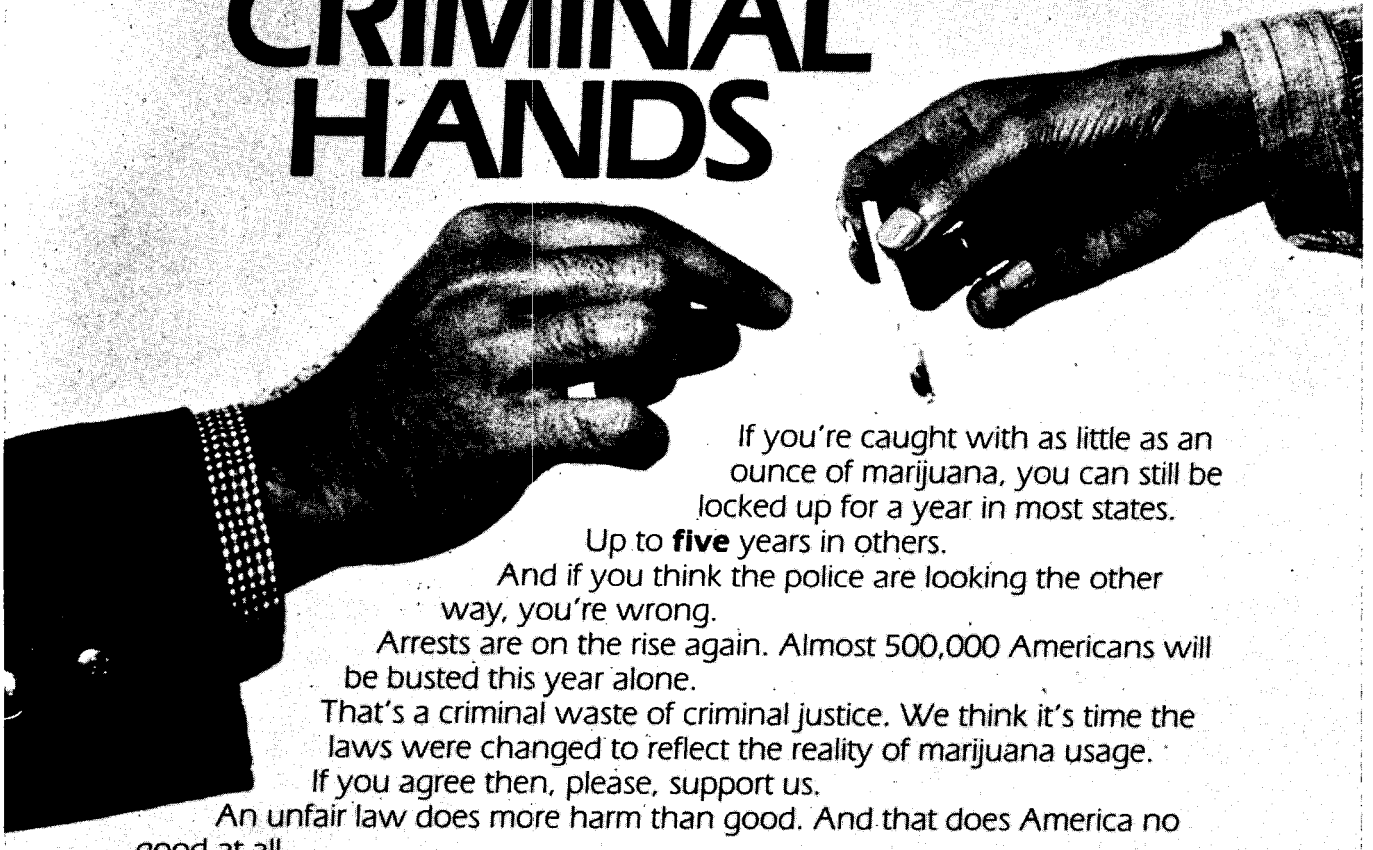

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DECRIMINALIZE

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toll payment will retain the option of waiting in line and plunking coins into the basket.

The essential point is that the technology for automated fare collection is at hand. Bridges *can* be converted to toll facilities and therefore privatized—before they begin collapsing all around us.

LOOK, UP IN THE SKY—IT'S PRIVATIZATION

The growth of private-sector launch services continues. Space Services, Inc. (SSI), the Houston-based firm whose initial rocket exploded on the launch pad last summer (see "The Second Space Race," REASON, Nov. 1981) is alive and well. The firm announced in February that it has asked to buy two surplus solid-fuel ICBM motors from NASA for an August suborbital test flight. It is also talking with the Air Force about purchasing surplus Minuteman I second-stage solid-propellant motors for development of a booster with orbital capability. Los Angeles-based Space Vector Corporation has for several years been producing the Aries sounding rocket for NASA, using the Minuteman motors. SSI has now contracted with Space Vector for engineering support services.

SSI has hired former Kennedy Space Center director Lee R. Scherer as a consultant to explore the feasibility of leasing federal launch facilities, either at Cape Canaveral or at Vandenberg Air Force Base, and is currently studying the possibility of building its own satellite launch site near Hawaii's Mauna Loa volcano. It has also hired former astronaut Deke Slayton and former Johnson Space Center engineering and development director Maxime Faget.

Privatization is also making a foothold closer to the ground—at airport control towers. Five of the 66 control towers shut down by the PATCO strike have been reopened—under private-sector contracts. First to be privatized was the tower at Owensboro, Kentucky, where the controllers themselves formed a company—Air Traffic Control Services, Inc.—that landed a contract to operate the tower. The other contracts have been won by firms that were already in the tower operation business. Barton ATC won the contract for Gilette, Wyoming, while Midwest ATC picked up Enid, Oklahoma, and Farmington and Hobbs, New Mexico. Also seeking tower-operations contracts is Pan American World Services, which has experience overseas operating control towers.

COMMUNICATING COMPETITIVELY

In February, American Telephone & Telegraph announced that it will divide its 22 operating companies into seven independent regional firms, before divesting them in accordance with the Justice Department's recent antitrust settlement. Most people assume those seven firms will continue to operate as regulated monopolies, while AT&T faces an increasingly competitive long-distance market.

Not so Nicholas von Hoffman. In a recent *New Republic* article (Feb. 3), the syndicated columnist raised a provocative question about the local companies' future: "Once they're spun off into independence, what's to prevent them from going into the cable TV business?" Think about it for a minute. "They have every major city wired. Overnight, merely with a change of legal status, all homes may become cable homes, whereby your local phone company supplies not only that service but also electronic Yellow Pages, classified ads, and supermarket displays." At one stroke, the monopoly of local cable companies could be broken. And since cable companies are already starting to compete with phone companies in providing data communications (see Trends, Jan.), so would the monopoly of local phone companies.

Several barriers *do* stand in the way, however. Aside from the narrow bandwidth of existing telephone lines (far from adequate to send conventional TV signals), the proposed Justice Department settlement *forbids* the divested local phone companies from offering any services other than local telephone calls—forever. Late in January the Federal Communications Commission's Common Carrier Bureau zeroed in on this, noting that "the decree itself could become an unnecessary barrier to competition." The bureau's report recommended that the decree be reevaluated every 10 years, with the restrictions remaining only if a judge found them to be still in the public interest. The other potential barrier is the probable unwillingness of state public utility commissions to give up their regulatory control of "the telephone monopoly" or of local governments to relinquish control of "the cable monopoly."

Yet every month brings further evidence that these services are *not* natural monopolies. In March, for example, the FCC began accepting license applications for cellular radio systems. These are computer-controlled networks of radio frequencies, forming a grid pattern throughout a metropolitan area, designed to facilitate a huge expansion of mobile telephone volume. The FCC will be issuing only two licenses in each market—one to the local phone company and the other to a radio common carrier (RCC). Existing RCCs—generally small firms—are banding together to compete with the telephone giants. "We're going head-to-head with the phone companies

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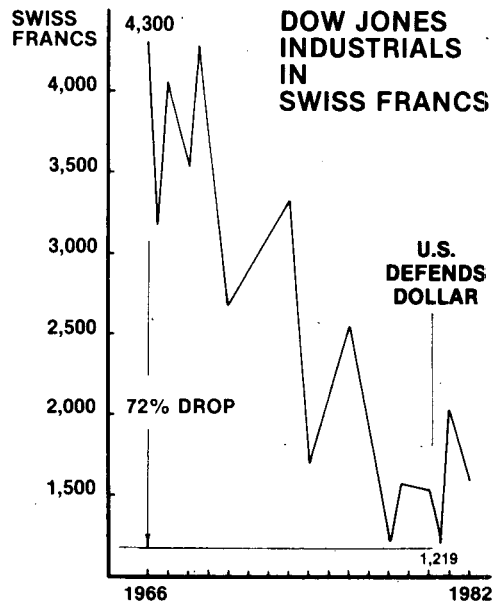
on this," says Gordon M. Kelley of Kelley Radio, in Seattle. His company has joined forces with four others to form Interstate Mobilphone Co., to offer continuous cellular service from Eugene, Oregon, to the Canadian border. In New York City, 12 RCCs have formed Cellular Systems, Inc., and other combines are springing up elsewhere. Industry consultants told a congressional hearing in February that, although mobile phone service will be the initial focus of these systems, personal portable phones (à la Dick Tracy wrist radios) and data distribution systems that bypass local telephone lines are also in the works.

And large industrial users continue to set up their own communications systems, bypassing the local telephone network. M/A-Com, Inc. has developed its own interstate voice, data, and video network, which costs $1.5 million a year to operate—compared with an estimated $5 million via AT&T telephone lines. Federal Express Corp. has linked together its three Memphis offices via a private microwave network and plans similar systems in 15 other cities. Planning Research Corp. built its own local phone network to serve its McLean, Virginia, office complex and its various tenants. Concludes telecommunications consultant Don Alexander of Theodore Barry & Associates, "Local telephone service has always seemed to be a natural monopoly, but more and more competition is coming."



WHO SAID THE U.S. MARKET DIDN'T CRASH?

- In swiss francs, the number one investment currency, the DOW fell 72% by 1980. Foreign investors then bought $10.1 billion, sending the DOW over 1,000 (in dollars) after the U.S. tightened the money strings and defended the dollar. Late last summer foreign buying slowed and by late September the DOW was at 820.

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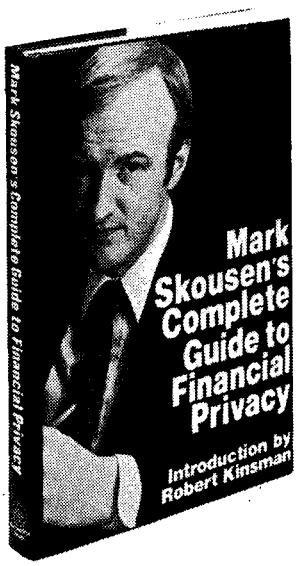
FEDERAL LAND SALES: A BOOMING IDEA

The idea of selling off federal lands to reduce the national debt (see Trends, Feb.) is rapidly gaining momentum. An aide to Sen. Paul Laxalt (R-Nev.), a leading proponent of the idea, told *Public Land News* (Jan. 21), "We're talking about selling off a lot of BLM [Bureau of Land Management] lands. We're talking about grazing land, oil and gas lands, hard rock mining lands, the big ticket items." How much land might be involved? Since the average BLM land sale over the past five years brought in $20,000 per acre, the aide estimated that the sale of just 10 million acres (out of the government's 775 million acres) could yield *$200 billion* to reduce the national debt.

Disposing of that much land at market prices could not be done without congressional action. That was made quite clear by two recent reports. A recent General Accounting Office study, performed at the request of Rep. Ken Kramer (R-Colo.), found it impossible, without "an extensive staff and considerable time," to provide a comprehensive picture of all federal land holdings and of the best procedures for selling them off. And a UPI-Better Government Association investigation of present government land-disposal practices revealed a system "rife with politics, mismanagement, and bureaucratic infighting."

Nevertheless, action of some sort seems likely. On February 25 President Reagan issued an executive order setting up a Property Review Board and instructing the head of each executive agency to report within 60 days the amount of all its unused or underused property. The *Wall Street Journal* carried both an editorial (Jan. 25) and an op-ed piece (Feb. 5) endorsing federal lands privatization.


Mark Skousen's Complete Guide to Financial Privacy
Introduction by Robert Kinsman
Mark Skousen's Complete Guide to Financial Privacy

HOW TO MAKE YOURSELF INVISIBLE TO THE I.R.S.

A Message from Mark Skousen

Three years ago I met a field auditor with the Internal Revenue Service. At social gatherings, when the talk got around to the mess in Washington and everyone's gripes about the government, he would interrupt with, "Now what did you say your social security number is?"

He was joking—or so he said. But his words set me thinking. *If the government can catch me with a number, then the power to tax is indeed the power to destroy.*

I began to study the situation. I was appalled to discover how much the government and business groups could find out about my personal and financial affairs *without me even knowing it.*

But I also learned that there were steps I could take—perfectly legal steps—to keep the snoops out of my life.

Then, as I got deeper into the problem, I realized that other men and women were troubled too. They were angry, but they felt helpless to do anything about it. When I told them the simple steps they could take, for example, to protect their social security number most of them just wouldn't believe me, until I actually proved it. One friend suspected his boss was spying on him. I showed him a free, easy way to find out whether his office phone was bugged. A friend of my wife's was having trouble with her husband. He was living beyond their means, spending their savings on heaven knows whom. I was able to show her how to store her valuables safely, outside her home and her safe deposit box.

But one thing I learned after three years of research. *Nobody had ever written a book about how I could protect my privacy.* It seemed that everybody was afraid of what the government would do to him.

Well, I don't consider myself a hero, but I decided to take on this project myself. After all, I am not doing anything illegal—or recommending anything illegal. My book is not for criminals. (They already know all the illegal methods.) It is for concerned citizens who *don't* want to break the law, but want to do everything possible to keep the government, business competitors, or prying relatives out of their private lives and their financial affairs.

My publisher calls the book **Mark Skousen's Complete Guide to Financial Privacy.** If secrecy, financial and otherwise, is one of your concerns, I'm certain my book will help you, in dozens of ways. For example:

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3. Treasury rules on foreign bank accounts: 5 promising *legal* loopholes.
4. 2 little-known tricks for preserving privacy even with a listed phone number.
5. How to learn what data a credit bureau is furnishing about you.
6. 2 ways to get a sizable loan without collateral and without revealing the purpose of the loan.
7. Risks you should *not* take to maintain privacy.
8. How to mail money out of the country anonymously.
9. The 10 best ways to hide your valuables.
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11. The terrible powers of the IRS.
12. Sample contract to assure bank privacy.
13. The benefits of a (perfectly legal) fictitious company checking account.
14. The 6 best tax havens. Advantages and disadvantages of each. 6 common reasons for using a tax haven.
15. How to use money orders, cashier's checks and travelers checks to enhance privacy. How to avoid the pitfalls.
16. How the post office can monitor your mail.
17. IRS devices to learn more about you.
18. The joys of a diplomatic passport. 3 ways a nondiplomat may get one.
19. Mexican banks: there's privacy, but also risks.
20. Advantages of foreign accounts even where there is no secrecy.
21. Project Haven, and the illegal behavior of IRS agents.
22. Money couriers: many work for the underworld, but some don't.
23. U.S. and Nazi tax laws: one disturbing similarity.
24. An expert's rundown on alarms and security devices.
25. Advantages—and risks—of a second passport.
26. The positive side of the so-called Bank Secrecy Act.
27. Ways *anyone* can spy on you—legally!
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Laxalt's aide told *Public Land News,* "With a big push from the White House we can get a bill out of Congress by August and certainly by the end of the session." And Arizona businessman Fred Hervey has formed the Reduce Our Debt Foundation (P.O. Box 29021, Phoenix, AZ 85034) to educate people about the size and composition of the national debt and to show how the sale of federal lands could significantly reduce it. Slashing the debt by selling off lands could be an idea whose time has come.

PRIVATE FIRE FIGHTING HEATS UP

Unreported by the media, representatives from five profit-making fire protection firms got together in Las Vegas the weekend of January 29-30 to form the Private Sector Fire Association. The new organization aims to raise the visibility of such firms and to make private fire service a live option for hard-pressed city governments.

Especially noteworthy was the participation of Wackenhut Services, Inc., the $200-million-a-year, Florida-based security firm. Company founder George Wackenhut has apparently decided that privatization is the wave of the future. Already the company has picked up its first fire protection contract—a three-year stint with Hall County, Georgia (which abolished its county fire department three years ago). Wackenhut plans to make Hall County its "model" operation and is aiming to be in the fire business in five other communities by year-end. The firm's prior fire-fighting experience has been at the Kennedy Space Center and in the Saudi Arabian oil fields.

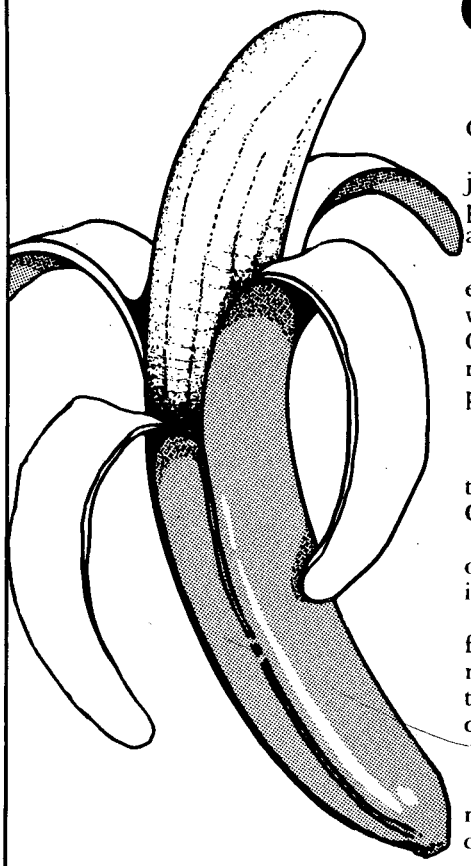
Although there are at least 14 private fire services in this country, only three appear to be geared up for nationwide bidding at this point: Wackenhut, Arizona's Rural/Metro Fire Department, Inc. (the pioneer firm in the industry), and J. J. Security, Inc. The latter firm provides airport fire and rescue service at the Green Bay and Madison, Wisconsin, airports, at Kansas City International, and at both Will Rogers Field and Wiley Post Field in Oklahoma City. But both Pan Am and TWA are reportedly seeking to enter the airport fire/rescue business. And Philadelphia-based ARA Services, a major contract operator of school buses and cafeteria services, has expressed interest in fire contracting as well. So it may not be long before cities are faced with a multitude of bidders for fire protection services.

Even the Small Business Administration has gotten into the act. Last year it hired a consulting firm, Gage-Babcock & Associates, to prepare a report on the entrepreneurial possibilities in this field. The May 1981 report, "The Small Business Firm as Provider of Fire Department and Emergency Medical Services in American Communities," provides a wealth of useful information to would-be suppliers of these services.

SAYING "NUTS" TO NATO

REASON is not alone in suggesting that it is time to rethink the one-sided NATO alliance, by which US taxpayers subsidize the defense of our European competitors (see "European Security Counsel," Feb.). Over the last few months this

Go bananas in Costa Rica



You can literally go bananas in Costa Rica.

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idea has begun to sweep the nation's op-ed pages.

Syndicated columnist William Pfaff raised the issue last November. After attending a high-level conference on the subject, he argued that "NATO is at a point at which it must be rethought." He warned that unless European leaders faced up to the changed strategic situation, popular support for NATO in this country would soon collapse.

Evidence of that incipient collapse quickly appeared. Twice in December, the *Wall Street Journal*'s op-ed page featured lead items questioning NATO: The first, by economist Ronald C. Nairn, argued that Europe's security is a matter for Europeans to decide; "America's choice is to recognize Europe's right and thereafter, logically, to go home." The following week political scientist Paul Seabury weighed in with "NATO: Thinking about the Unmentionable," in which he pointed out that a withdrawal of US troops "need not be an irrevocable rupture with our NATO allies, and it certainly would be a necessary act of strategic realism, grave as it would be." Little more than a week later, columnist Joseph Kraft concluded a column on Europe with these words: "The melancholy fact is that this country may well serve international security best by freeing itself from some of the burdens of the Atlantic Alliance."

But the strongest statement yet has come from *New York Times* columnist William Safire. Reviewing the history of the US troop presence in Europe, in a February column, Safire identified their real purpose: to serve as a tripwire to ensure that the United States would, of necessity, be involved in any attack on Western Europe. And the fact is, because NATO conventional forces are so badly outnumbered by the Warsaw Pact, their only defense could be with nuclear weapons. Yet NATO member governments are now reluctant to modernize their nuclear forces. So our troops are, in effect, a suicide squad. Hence, says Safire, "If our 350,000 men are not in Europe to fight effectively—able to use nuclear weapons to stop any attack—then they should not be in Europe at all."

LESS AID, MORE HELP

In recent years, a new approach to the foreign-aid problem—first, how to get aid money into the hands of those who need it, and then how to get those who need it to use the money productively—has been taken by some aid-giving governments and international donor agencies.

The traditional strategy has been to infuse subsidized rural credit systems of poor countries with large amounts of money. These credit systems—which, in India and Mexico, for example, have received hundreds of millions of foreign-aid dollars—are attractive because (1) donors can pour lots of money into them quickly, (2) the aid appears to be focused on urgent food production, and (3) the rural poor are supposedly benefited by the below-market-rate credit. A pair of analysts—Robert Vogel, an economics professor at Syracuse University, and Dale Adams, professor of agricultural economics at Ohio State University—has pointed out (*Wall Street Journal*, Jan. 21), however, that the results of this strategy have often been disappointing.

The problem, according to Vogel and Adams, derives from the structure of the rural-credit system. A recipient government uses the foreign exchange to pay for imports; its central bank then loans an equal amount of local currency—at low interest rates—to rural credit institutions, which, in turn, are to lend the money—again, at cheap rates—to farmers. The actual result, however, is that much of the credit gets "diverted out of agriculture; most cheap loans end up in the hands of the non-poor, and the financial vitality of local lenders is undermined as they become addicted to cheap money and lose interest in mobilizing voluntary savings," the analysts contend. Then, as the lending process gets politically entangled, "loan default problems mount," the authors note, "and financial intermediaries sit around like baby birds with their mouths open, waiting for someone to give them more cheap loans to process."

Adams and Vogel suggest that less aid can get better results than these credit systems when used instead to set up rural commercial savings-and-loan facilities. The analysts point to a project in Peru—citing, too, successful projects in Taiwan and Korea—that "has been mobilizing substantial voluntary savings in several poor areas—in spite of rates of inflation in Peru exceeding 50 % per year and declining per capita incomes." In just a few months after it started a campaign to attract local savings, a small cooperative bank, which had received a modest grant to get the savings-mobilization program started, had far exceeded its goal for attracting deposits. By the end of the project, it had mobilized more than $1 million.

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Adams and Vogel note that the bank succeeded by raising interest rates on savings to the legal limit; by offering convenient hours and simple, efficient service; by using publicity and prizes to attract deposits; and by rewarding employees who secured new deposits. "Substantially more small farmers and other rural poor," report Adams and Vogel, "were drawn to the deposit services of the cooperative bank than had ever been reached by numerous programs of low interest loans." And the bank's funds were loaned to local inhabitants—for farming and other investments—at commercial rates. Not only did the bank become a profitable business, but its success spurred several credit unions in the area to become more aggressive in efforts to attract savings.

The stimulation and reinforcement of "appropriate economic policies in low income countries," Adams and Vogel conclude, "is far more important than shipping more money from rich to poor countries." Especially in light of Reagan administration plans to cut back foreign aid, the Peru experience provides a model of how to do more for the world's poor with less.

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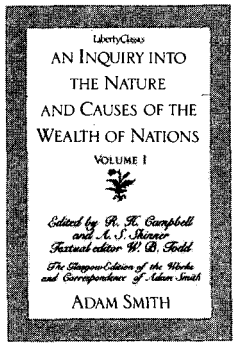

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DOWNZONING DOWNGRADED

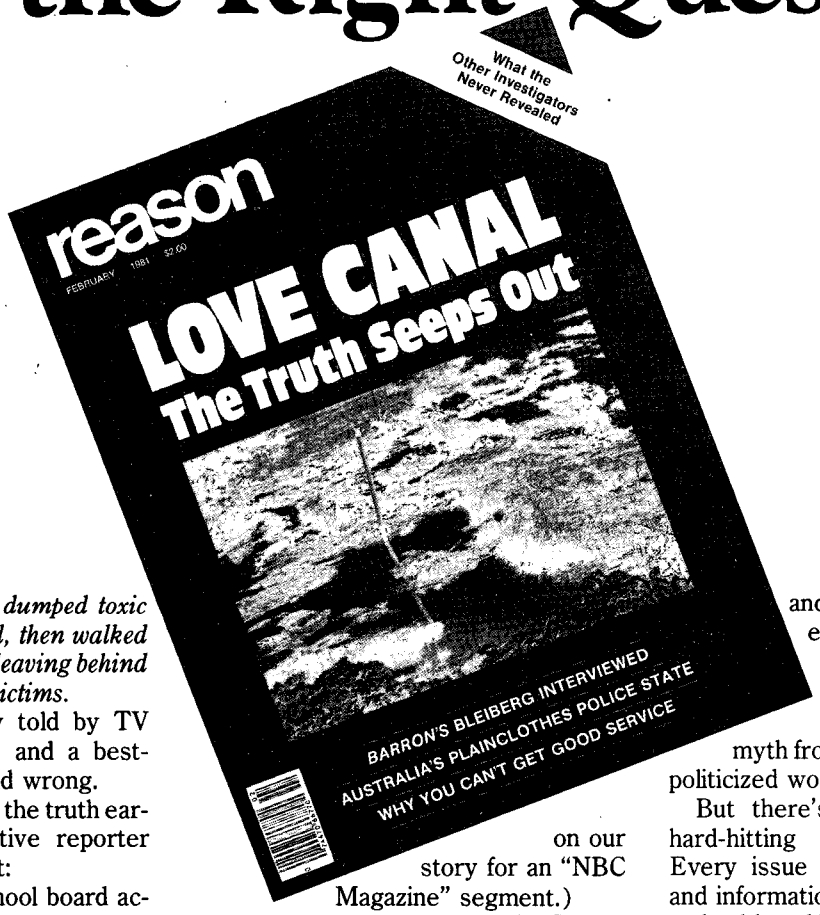
When local government rezoning diminishes the value of a piece of property by restricting what can be done with it, does this constitute a "taking" of property for which the owner must be compensated? The New Hampshire Supreme Court has ruled unanimously that it does, in *Burrows et al.* v. *City of Keene* (N.H., 432 A.2d 15).

The particulars will sound familiar. A land developer purchased 124 acres in the city of Keene for $45,000, intending a residential subdivision. Upon presenting his subdivision plan, he was told that the city wanted to preserve the land as open space and would offer to purchase it. But the city then appraised the property at just $27,000, based on its value as open space—even though its own tax assessment listed the value as $41,406, close to the purchase price. When the city offered $27,900 for the land, the owner refused and proceeded with his subdivision plans. One year later the city denied permission for the subdivision and subsequently amended its zoning ordinance to include 109 of the 124 acres in a "conservation zone." The developer sued, arguing that the city's action constituted inverse condemnation—a taking of property for which compensation was required.

In its forthright decision, the New Hampshire Supreme Court agreed. It noted that the state constitution "makes explicit what is implicit in the Fifth Amendment . . . namely that 'no *part* of a man's property shall be taken from him . . . without his consent.' " It further recognizes that "acquiring, possessing, and protecting property" is a natural right not bestowed by the Constitution but simply recognized by it. Consequently, the state's "so-called police power," from which zoning derives, is necessarily limited by the right to just compensation.

"Police power regulations such as zoning ordinances and other land-use restrictions can destroy the use and enjoyment of property in order to promote the public good just as effectively as formal condemnation or physical invasion of property," wrote Justice Brennan in a 1981 US Supreme Court case, *San Diego Gas & Electric* v. *City of San Diego*. Citing Brennan and various state precedents, the New Hampshire court ruled that downzoning does indeed constitute a taking. The city was ordered to pay compensation for the diminution of value

To Get the Right Answer, You Have to Ask the Right Question.



A heartless corporation dumped toxic chemicals in Love Canal, then walked away from the problem, leaving behind a neighborhood full of victims.

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- The Niagara Falls school board acquired Love Canal from Hooker Chemical in 1952 under threat of eminent domain;
- The school board disregarded repeated, explicit warnings not to disturb the canal's clay cover;
- The city punched two sewer lines through the canal walls, in 1957 and 1960, allowing chemicals to seep throughout the neighborhood.

Finding this out didn't take Freedom of Information Act requests. The whole story was available in public documents in Niagara Falls. Yet no other national magazine had bothered to look. They all just took it for granted that a giant corporation *had* to be the guilty party.

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- Why does fire protection in Scottsdale, Arizona cost about half what it costs in nearby communities? Could it be because an innovative private company provides the service? (CBS thought so — they devoted a "60 Minutes" episode to our story.)

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resulting from the taking, as well as attorney fees and costs.

If a city wants to secure a public benefit such as open space, it may not require a single individual to bear the burden of its cost, said the court. And although a city may prohibit injurious use of property, "the normal development of land for residential purposes is not" an injurious use.

Interestingly, too, the court added this further warning: "Planners and other officials should be aware of possible personal liability for bad faith violations of a landowner's constitutional rights which may go beyond the damages recoverable for inverse condemnation. Cities and towns should also be aware of possible 42 U.S.C.A. §1983 actions for damages for violations of the constitutional rights of citizens to be compensated for injuries suffered." Bureaucrats, beware!

DECOMMUNIZING COMMUNISM

With their establishment in 1958, rural communes became the fundamental social and political units of China's countryside. As the supposed building blocks of an ideal society, the communes dominated nearly all aspects of rural life—social services, schooling, recreation, etc.—and managed the nation's farming. Recently, however, and with the support of the nation's most powerful leader, Communist Party vice-chairman Deng Xiaoping, China has embarked on a plan to phase out completely its 52,000 rural communes. In January, 100 of them were dissolved, and if the results are favorable the rest of the communes will be similarly terminated by 1985.

In place of the communes—which were becoming an increasing burden on the nation's economy because of their bureaucratic complexity, inefficiency, and negative influence on farmers' productivity—elected township and district governments handle administrative functions, while the peasants, either individually or collectively, assume management of agricultural production. Rural reforms implemented three years ago, which allowed farmers greater independence from the state, already have been responsible for much new prosperity in the rural economy.

Under the commune dissolution plan, the land is still publicly owned, but farmers work it individually or in voluntary cooperation. Rural industries and other former communal enterprises are turned over to collectives or to the newly elected local governments. The new arrangements, like the previous rural reforms, rely more on individual responsibility and initiative and less on governmental supervision. Indeed, the state agricultural commission vice-chairman, Du Rensheng, expects that farmers, freed from the communal yoke, will voluntarily band together in various collective enterprises to meet their needs, as has already been the case in several provinces.

To the west, Afghanistan's Soviet-backed regime of President Babrak Karmal is learning a lesson that may spare that country the ill effects of duplicating China's failed 25-year experiment with rural communes. The Marxist regime announced in February its abandonment of an extensive land-reform plan that would have affected the nation's tribal areas, which constitute nearly three-quarters of the country. The move, made in response to the rural inhabitants' intense resistance to the government's reform initiatives, acknowledges the traditional authority of tribal and religious leaders.

MILESTONES

• *Thanks, But No Thanks.* Wishing to avoid the regulations and paperwork headaches that accompany federal contracts, the American Electronics Association in January pleaded with the House Science and Technology Committee *not* to pass its proposed Small Business Innovation Development Act. Randy Knapp, the association's spokesman, told the committee members, "We do not believe companies can be made more competitive by being sheltered from competition." Knapp suggested tax deductions and credits as more effective ways of fostering technical developments.

• *Shocking Proposal.* Police officials in Atlantic City have decided that they just haven't been very successful in trying to enforce laws against the world's oldest profession. So they want prostitution legalized in the casino town. Politicians, however, expressed shock at the proposal, which, it is reported, is unlikely to be enacted into legislation.

• *Privatize Social Security.* In an interview published in *The Socioeconomic Newsletter* (Feb.-Mar. 1982), social-policy analyst Peter Germanis of the Heritage Foundation proposed that "Social Security should be made solely into an insurance program in which benefits are based on contributions, plus interest." Germanis does not believe that "there is any reason why private-sector alternatives can't provide for the same contingencies as Social Securities does."

• *Time Up for Overtime?* Seeking alternatives to the 5-day, 8-hour-a-day work week, a growing number of employees are calling for an end to a 1937 California law that requires overtime pay for those working more than 8 hours in a day. Though the law does provide for some exceptions—it now acknowledges, for instance, the 4-day, 10-hour-a-day week—it would be an obstacle to widespread implementation of further flexible work schedules, such as a 3-day, 12-hour-a-day week—an arrangement increasingly attractive to those wishing less commuting time and more weekend time.

• *Ability Tests Pass.* After a four-year study of ability tests—such as civil-service tests and college entrance exams—the National Research Council of the National Academy of Sciences concluded that such tests are not biased against minorities. Though the council warned that ability tests cannot judge valuable personal characteristics and acknowledged that the tests are culture-dependent, it concluded that at present such tests are singularly effective in evaluating developed abilities and predicting educational and job success—for minorities as well as for whites.

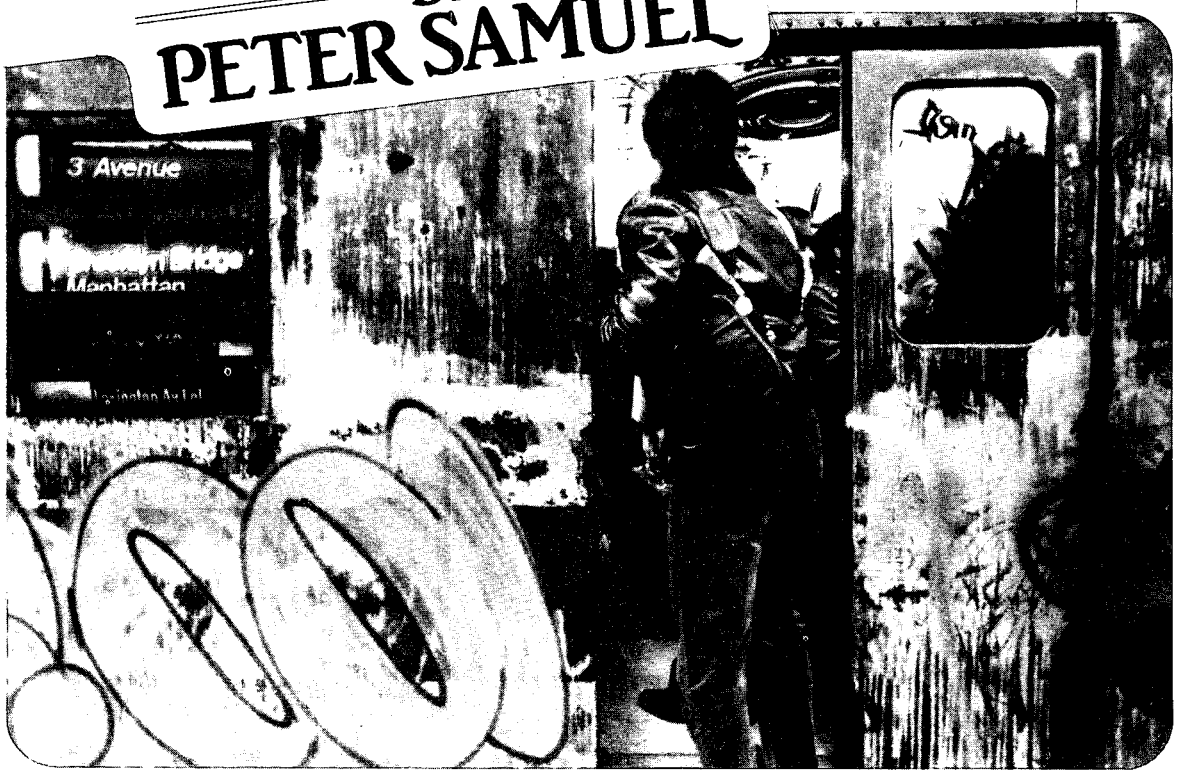
• *Property Rights Shored Up.* A California District Court of Appeal ruled unconstitutional the state coastal commission's guidelines that require owners of coastal property to grant beachfront access to the public in exchange for permits to develop the property. Though the court did not rule against the commission's authority to require public access to the beaches, it judged that the commission had been abusively exercising its authority, ignoring the rights of property owners.

• *Golden Eagle.* The US Gold Commission proposed that a new gold coin—the American Eagle—be issued by the Treasury Department. Not intended as legal tender with a fixed monetary value, the coin could be held or used as a speculative investment. The value of the coin would vary with the market price of gold, and profits from selling the "eagles" would be exempt from the capital-gains tax. Legislation will be submitted to Congress later this year, and easy approval of the coin is expected.

—ROBERT POOLE, JR., AND ERIC MARTI

UNLOAD THE SUBWAYS

BY PETER SAMUEL



Taxpayers' billions haven't saved the nation's greatest subway from crime, filth, and deterioration. A noted economist offers New York City a radical solution.

Along Madison Avenue in New York City every afternoon ply an extraordinary variety of buses. There are old GM buses loaned from Washington, D.C., to replace broken new Grummans, new GM buses bought to replace Grummans, and some repaired Grummans. That accounts for the city buses. And then there are buses with names like Domenico, Sternway, Liberty, and New York Bus—private express buses taking Manhattan workers and shoppers home to the Bronx and Queens. They struggle through some of the most congested city streets in the world and operate without subsidies and in direct competition with the subways. And they succeed!

Most of the areas the private express buses serve are also served by subways. A subway will get New Yorkers home for 75 cents. But there they wait, on the sidewalk on Madison Avenue, to ride the private buses and to pay anything from $2.50 to $4.00 for the same journey. While the private buses pay their own way, enlisting the voluntary support of consumers in the free marketplace, the subways forcibly rip hundreds of millions of dollars out of New York taxpayers (and lesser amounts from *all* taxpayers) for their sustenance.

The willingness of so many people to pay extra for private transport services is

Photographs by Jim Lukoski

just one measure of how atrocious, by comparison, the city subways have become. At the same time, it is a sign that private ownership could provide an alternative to the decaying city-owned underground.

A MARVEL IN RUINS

Consider first that this generation of New Yorkers have come into an inherently great system for getting themselves about. It is now being grossly mismanaged, but as originally developed, it was something great!

Look what was built. As befits the largest city in the world, the New York subways are the largest, most extensive underground rail system in the world. No location in the city is far from a subway. Three separate systems, some 23 lines (plus branches), it has 458 stations and runs 6,500 cars, over 826 miles of track, covering 230 route miles. A billion passenger trips are made on the subways each year; well over 3 million each weekday.

Its tracks climb hundreds of feet onto two huge suspension bridges and dive down into 13 deep and long tunnels beneath the East and Harlem rivers to connect the boroughs of Brooklyn and Queens and the Bronx to Manhattan, as if they were one. Much of the system is four tracks, the central two tracks being for expresses, the outer two for locals. Few other systems have that. The stations generally were built immediately below the street pavement, so they are readily accessible—unlike the London "tube" stations, which have to be reached by amazing but slow escalators or even, in places, elevators.

By any standards the construction of the New York subways is an amazing feat of engineering design and execution. Along narrow avenues like Lexington the system is double-decked half the length of Manhattan; the transfer stations where lines cross are intricate rabbit warrens of tunnels for both trains and pedestrians. The trains run fast—55 miles per hour is the regular cruising speed for expresses.

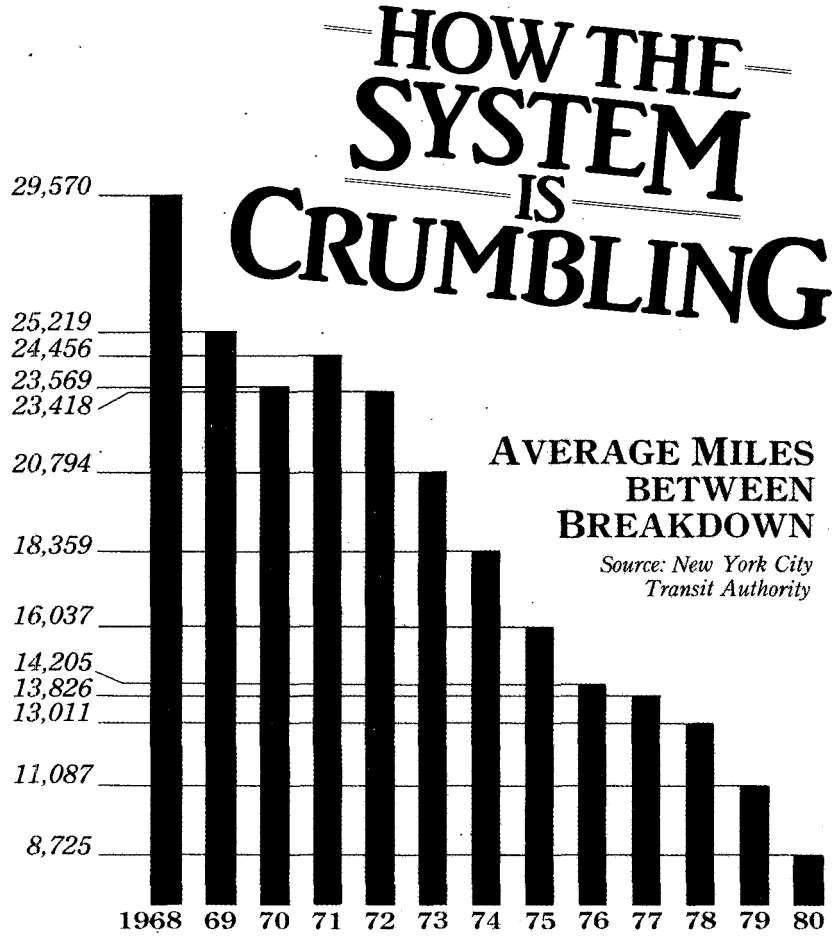
Without the subways, it is doubtful New York would have established itself in the first half of this century as the financial, publishing, fashion, and entertainment capital of the world. This most city-like city of incomparable concentrations of towering skyscraper offices and of blocks of brownstone terrace houses and innumerable apartments and great museums and hotels, all cheek by jowl, could never have developed without such an excellent rapid transit system.

"What is amazing," wrote Paul Theroux recently in the *New York Times Magazine*, "is that back in 1904 a group of businessmen solved New York's transport problem for centuries to come. What an engineering marvel they created in this underground railway! And how amazed they would be to see what it has become, how foul-seeming to the public mind." For although New York's subways were initiated, financed, built, and initially run by private enterprise, the inheritance has been squandered in four decades of government anti-enterprise.

New York's subways are notoriously bad today, and their condition, like the rubble of the South Bronx, symbolizes the municipal decay that is becoming commonplace in America. As economist James Ramsey expressed it recently: "The entire subway is a decaying filthy mess, more reminiscent of an open sewer than a mode of transportation. . . . [It is typically] a dimly lit, littered tunnel which drips water and smells of stale urine."

And that's not the worst of it. The subways are unsafe; crime on them is rife. In 1980, the last year for which statistics are complete, nearly 30,000 crimes committed on the New York subways were reported—5,000 robberies, 14,000 larcenies and assaults, 8,000 bag snatchings, 21 murders, and 24 rapes. In 1981, according to a Transit Police spokesman, these frightening statistics increased substantially. All that crime occurs despite a Transit Police force of 3,000 and the good work of the famous Guardian Angels patrols.

Graffiti! No treatment of New York's subways can avoid mention of the mixture of crude spray-can artistry and vandalism that covers every car in the system, inside and out. On the metal exterior walls of the cars and on the laminate inside walling, graffiti are just an esthetic affront; but as they frequently obscure train numbers, destination signs, and route maps, graffiti also create huge practical problems for subway users. They are constantly wondering, Where am I, if I can't see station signs out the



Instead of reducing deficits by labor-saving measures or cost-reducing investments, the Transit Authority has "deferred maintenance"—with predictable results.

window? And where is this train going, anyway, given that all its destination signs are obscured? With the overhead map painted over, how many more stops till my stop? Terse loudspeaker announcements spoken over a crackly address system in a particularly clipped, almost consonantless, Bronx or Brooklyn dialect may be all you have by way of clues in navigating the system.

The biggest problems, however, are not the dirt, the smell, the crime, the graffiti, or the language of the staff. The major, the fundamental, problem of the New York subways is the economics of political mismanagement.

FINANCIAL HEMORRHAGE

It is no small feat to come to grips with the dollar numbers involved. The subways are run as part of a maze of interlocking and overlapping agencies within the Metropolitan Transportation Authority (MTA), put together in the 1960s. That organization is supposed to report annually, but as of the end of 1981, when I started researching the plight of the system, the last "annual report" was for the year of 1979! A nonindexed, typed and photocopied document without any page numbers, this is a farce as an annual report. If any such document was submitted by a public company, it would be immediately delisted from the stock exchanges and rightly prosecuted by the Securities and Exchange Commission. But being a government fiefdom, the MTA can, it seems, get away with a financial report the village Boy Scout troop would be rather shamefaced about.

This MTA is responsible not only for the New York subways but for city buses, three major suburban commuter railroads, the Triborough Bridge and Tunnel Authority, and two major peripheral airports in the New York area. The subways are owned by the MTA but operated by an agency called the New York City Transit Authority (NYCTA), which in turn has as a subsidiary the cumbersomely titled Manhattan and Bronx Surface Transit Operating Authority (known by its acronym MaBSTOA) that runs the city buses.

The MTA reports never make clear when the NYCTA figures include or exclude the buses, but I was assured by an official that an unnumbered page at about the middle of this so-called annual report, titled "New York City Transit Authority, Statement of Flow of Funds," is for the subways only. It shows a "cash deficit" of $293 million. Included in the cash generated, however, is some $55 million in reimbursements from New York City for "reduced fare programs." And on the costs side, excluded are some "transit police, engineering and other services" worth $126 million, financed out of the city budget. So the *real* cash operating loss was $474 million. That was in the year 1979, remember, the closest I could get with any dollars on paper.

When I expressed amazement to the MTA official about the lack of any report for 1980, she said they did not have the money to print the report! The figures were "available." "You must be able to afford some kind of paper?" I asked. "We have a book called *Facts and Figures*," the woman volunteered. "That has everything in it." I could get one if I wrote a letter explaining who I am and why I want it...I would, if lucky, receive it in about a month, I thought.

The alternative was to go to the book counter at the TA (NYCTA) subway museum in Brooklyn. The museum itself is well worth the visit for a browse through old subway cars and a look at photographs of the system in the old days. But *Facts and Figures*—cost, $7.00—turns out to be mainly a history of the system, with the sordid $ sign nowhere to be seen outside a mysterious one-line reference to the TA having a "budget" of $298,008,067 for fiscal 1981.

Back to the MTA woman about the "available" figures for the subways' losses for 1980. She eventually returned my call to say that revenues were $687 million and expenditures $1,117 million—a deficit of $430 million. She could not say whether city contributions meant the actual cash operating loss was much larger. Such is the vagueness of the Transit Authority about the millions it loses, and such is its disinterest in civics notions of accountability to the citizenry.

From various nonattributable sources I gathered that as of 1982 the New York subways are likely to cost around $1,500 million to operate and to generate around $800 million by way of fares (and concession revenues), so there appears to be an operating loss of $700 million. (This compares with a deficit of $755 million for 1982 for the Transit Authority, subways plus city buses, projected by Edward S. Seeley, Jr., in the chapter titled "Mass Transit" in *Setting Municipal Priorities, 1982.*) Operating loss, however, is not the end of the dismal story of financial hemorrhage.

For almost as long as corporations have existed, they have attempted to account for their consumption of capital during the year of their financial report, so that the rundown of their capital shall be allowed for before striking a profit (or

loss). Considerable effort goes into this calculation of "depreciation." Not at the MTA, though! Such elemental good accounting eludes the managers of New York's subways. The word *depreciation* does not appear in any of the MTA's financial reports.

The nearest thing to an estimate of the subways' annual depreciation must be gleaned from statements by the MTA chairman in 1981 that the replacement cost of the TA's capital assets has been estimated "conservatively" at $42 billion and that, based on the useful life of various elements of the system, "about a billion dollars a year" should be going to maintain its condition. This would probably be an overestimate of annual depreciation of the subways. It covers the 4,200-bus MaBSTOA, and perhaps $100-$150 million is attributable to that branch of the TA. That leaves $850-$900 million annually claimed by the MTA chief as "necessary" capital and maintenance spending.

The MTA does have a massive list of proposed Transit Authority capital spending. "Identified Annual Needs" in a 1980 Staff Report amount to the staggering sum of $1,432 million, for 10 years—that's some $14.3 billion in all. A detailed examination of the list shows that $155 million per year is not subway related. And new subway lines are down there for $195 million annually. The MTA cannot justify the continuance of many of the existing lines and has never attempted a rigorous justification of any of these proposed new lines. The document therefore is in part merely a "wish list" of what the bureaucrats, engineers, and planners of the subway system would like to do in their unreal world of unlimited resources and in the absence of any discipline to undertake outlays only to the extent there are prospective future revenues to match those outlays and offer some reasonable rate of return on capital. No marketplace constraints at the MTA!

It may be true, nevertheless—and I could only make a stab at the figure—that about $600 million annually is currently needed to maintain the New York subways and that a figure of that order should be counted as depreciation. Add that to the operating loss of about $700 million, and you have the subways currently operating at a net annual loss in the $1.3-billion ballpark.

Since the annual number of trips being made on the subways is very close to a round one billion, this means that about $1.30 is being lost on each trip. The subway fare was raised in 1981—after great fuss—from 60 cents to 75 cents. Under present auspices, the system is costing something over $2.00 per trip to run, and apparently state and city, as well as federal, taxpayers are bearing two-thirds of the cost of its operation.

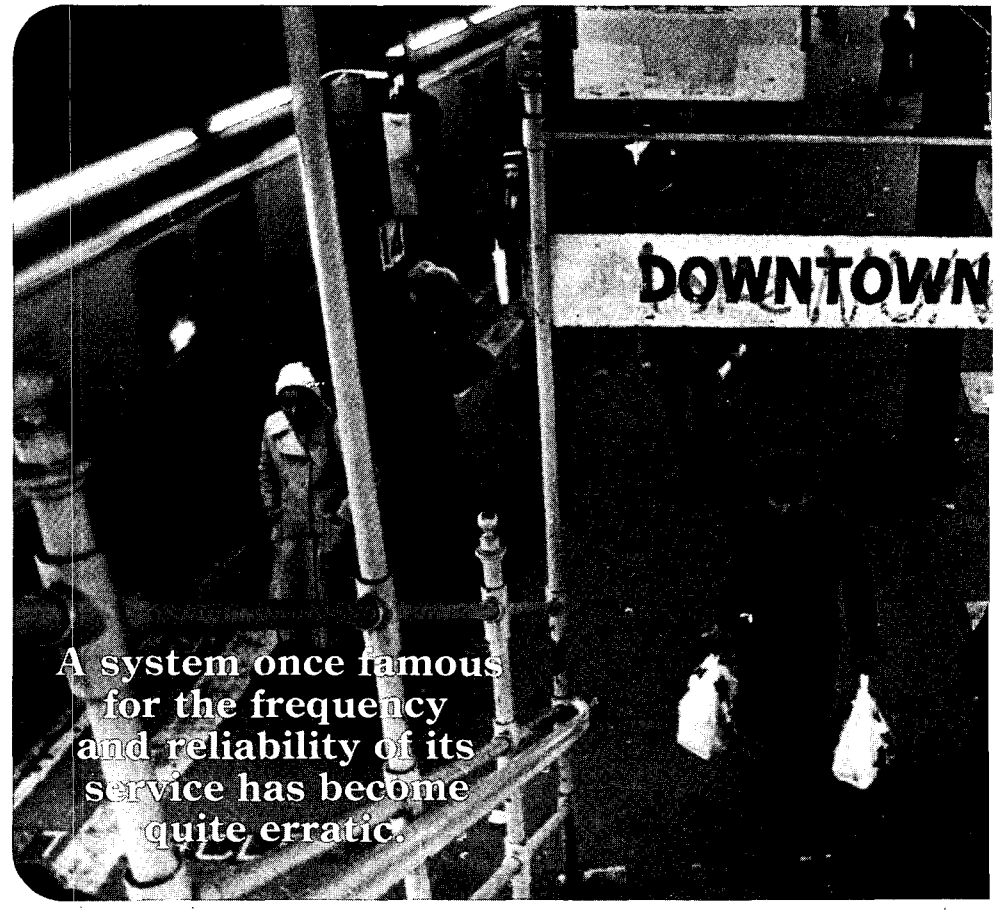
Such massive subsidization is quite unsupportable. The federal government understandably does not see why taxpayers all over America should be forced to pay for commuter service in the Big Apple. New York State and City already suffer economically from over-high levels of taxation, which has been identified as the major factor in the emigration of business and jobs to nearby Connecticut and New Jersey and to the south and west of the United States. The other huge problem in maintaining New York as a vital city is crime prevention, and every million dollars down the subway is a million less for hiring cops.

People might believe that there is a welfare argument for below-cost subway travel for poor New Yorkers, but nothing could be more insane than the present system in which everyone riding the subways gets so heavily subsidized. In short, there seems to be no argument for subsidization of the subways—*or for government ownership.* It is under government ownership that a grand system built early in the century by entrepreneurs has been brought to the brink of ruin. As argued by James Ramsey, chairman of the Department of Economics at New York University, at a recent public seminar, continuance of government ownership is intolerable; and subway operation by purely commercial businesses would be far superior.

In early 1982, two separate events underscored this conclusion. The publishing firm of Harcourt Brace Jovanovich, citing as a major factor the city's unreliable and unsafe transportation system, announced that it will move its headquarters and many of its operations from New York City. And the New York State Court of Appeals ruled that the Transit Authority, as a government body, should not be held to the same standards of care as private bus companies and railroads and therefore is not liable for crime on the subways.

AVOIDED EFFICIENCIES

A major reason for the deepening financial crisis of the subways is the power of the labor union under conditions of government ownership and apparently unlimited subsidization. The Transport Workers Union (TWU) has throughout the history of municipal ownership of the subways had a "closed shop" arrangement with the government, which means that only union members can be hired. The union has an



absolute monopoly of the supply of labor to the subway system.

Ramsey cites figures showing how the TWU has benefited from this monopoly position. During the years 1968 to 1979, the consumer price index rose by 127 percent, but New York transit workers' wages and salaries rose by 176 percent and pension payments by 556 percent. During the years 1965 to 1978, New York transit workers' salaries rose 148 percent, whereas nationwide manufacturing industry wages rose by 119 percent, service workers' by 112 percent, and local and suburban transport and public utility workers' by 116 percent.

The high pay of NYCTA workers was not a reward for productivity increases. On the contrary, productivity has declined on the subways as measured by passengers per employee. In the 1960s it was 170 to 180 per day but by the 1970s was below 130. Ramsey cites NYCTA documents showing that most employees do not even theoretically work an 8-hour day. The maximum hours laid down for car maintenance personnel is 6¾ hours and for trackmen 5⅔ hours. The pay, of course, is based on eight hours.

The government subway workers seem to be much overpaid for the skills required. Ramsey cites the example of token booth attendants who in 1978 made $21,888 a year. These people sell the standard turnstile-opening tokens and nothing else. At the same time, intermediate-grade tellers in New York banks were earning $11,767. In addition to rather high basic pay scales, the subways provide their workers with generous overtime premiums, liberal vacation and time-off allowances, and rights to retirement on full pension after 20 years' service.

It is clear that enormous labor savings are possible on the New York subways. The most obvious labor economy, according to a former TA engineer to whom I spoke, is dispensing with conductors on trains and with token booth attendants—about 7,000 workers.

It seems amazing that a system with route lines as long as 35 miles should have only one fare, but that is conditioned by the token-operated entry turnstiles. Even if the fare was right as an average fare, it would, of its essence as an average, discourage economical short-hop travel and overencourage, by subsidization, long-distance travel. So it inevitably causes overcrowding with long-distance passengers and undercuts the financial viability of long-distance competition such as suburban commuter railroads and express buses, while overcrowding city sidewalks by deterring quite economic short-hop use.

The subway system could sensibly move to some form of distance-related fare structure. It could make use of the automated magnetic-stripe tickets, scanned on entry and on exit, like those on BART in San Francisco and on the Washington Metro. It is the most labor-saving system but expensive to install and maintain. Or else it could use the cheaper ticket-dispensing machines, with tickets checked not at entry and exit, which is so expensive either in manpower or in scanning and computing equipment, but by roving teams of inspectors making random inspections, as is the regular practice in European transit. Jumping of turnstiles to avoid fares is rife in New York under the present setup and is said to lose the system perhaps $100 million a year. Deterring fare evaders by heavy on-the-spot fines or arrest might also keep many criminals off the system, further improving the security of passengers.

As they presently operate, the New York subways are grotesquely overcrowded at various times of the day. A new fare system would also enable management to spread passenger load by having off-peak discounts. But the present management of the New York system has no interest in even such a simple, proven device as this.

The NYCTA does say that its future train cars will be designed for one-man operation, so that conductors will not be needed. But it already has in service trains that allow the driver to check that the doors are clear and therefore do not need conductors; yet these all have conductors.

The TA is putting off for as long as possible any labor-saving measures because it wants to avoid difficulty with the union. It has no plans for any modernization of the archaic system of token sellers in booths and token-operated entry turnstiles that limit it to a single systemwide fare.

Privately owned businesses that do not have access to the coercive powers of taxing (or printing money) in order to finance deficits are much better able to resist extraordinary wage pressures and to negotiate with unions more productive work arrangements. In recent months we have heard a lot about airlines, trucking companies, car manufacturers, and other businesses successfully negotiating

"givebacks." What givebacks have been gotten from school teachers, fire fighters, bureaucrats, or transit workers? None that I have heard of.

The reason is obvious: in a business enterprise, employees see that its survival and consequently their jobs are directly related to their productivity and inversely related to their cost by way of pay. In a government authority, in contrast, employees see the survival of their operation as almost completely assured whatever their productivity and pay. They see that their agency is already heavily into the pockets of tens or even hundreds of millions of taxpayers. And they see it as capable of borrowing or sponging off of some other level of government. They see no limits to subsidies, hence no constraints on their remuneration or on restrictive work practices.

A risk-capital commercial enterprise will therefore inevitably tend to be more flexible, more efficient, more responsive to consumer demands. And it will, of course, have to be profitable. Those constitute overwhelming arguments for commercial ownership and operation.

Ramsey is well worth quoting for his succinct summation of the case against government operation of the subways: "If we couple the enormous economic power of the union with political leverage, then the ability of the union to tax the rest of society is impeded only by political reluctance to raise fares and the length of debates on tax increases." In light-hearted tone, he formulates his version of Parkinson's law. We could call it Ramsey's Law of Transit Subsidies:

The value of managerial incompetence, waste, and of labor benefits will always exceed last year's subsidy, no matter how large—in fact the larger the subsidy, the greater the deficit now generated.

About the only savings that have been made under the pressure of the New York subways' vast and growing deficits have been through what management calls "deferred maintenance." That is the official euphemism for neglecting the upkeep of the mechanical equipment of the system. As a result, trains break down with alarmingly increasing frequency (see graph, p. 24). The MTA reports that on the average day 190 trains never make it out of the storage yards because of defective equipment. Among the 1,215 trains that do get out each day, an average of 140 are abandoned en route because of breakdowns. Doors fail to open or close, brakes fail, motors won't work, signals go out, power pickup shoes fall off. A system once famous for the frequency and reliability of its service has become quite

erratic. Waits of 20 minutes are common in rush hours, so that stairways and walkways as well as platforms become jammed with waiting people.

There have been no disastrous crashes yet, fortunately, but this has been more a matter of luck than a result of care. In Brooklyn in the fall of 1981 there was a rear-end collision in the subway when signals malfunctioned, and the motorman in one train was killed. Between then and the middle of March 1982 there have been six derailments—none fatal, but an ominous development.

WHAT MONEY CAN'T DO

The response of the MTA management to this deterioration is to propagandize like fury. Officials do not try to deny or even moderate complaints that the subways are falling apart. They happily confirm them—and harness them to build political support for vastly increased spending. *New York* magazine, which usually prides itself on its antiestablishment stance, recently ran a pure PR piece supporting the MTA's efforts to rake up $7.9 billion for new plant and works.

Now there is no doubt that capital expenditures of various kinds are needed to bring the subways back into physical and financial health. But all the present government managers want to do is to spend money! They hope to get $1.3 billion from the federal government, almost $1 billion from state and city, $400 million from leaseback tax schemes (now in jeopardy because of attempts to rescind this tax measure), and some $200 million from motorists via diversion of profits made on tunnel and bridge tolls. The balance, some $5 billion, would come from bond issues.

Of the total $7.9 billion, some $2 billion would be used on behalf of new buses for MaBSTOA and new plant and equipment for the commuter lines, so about $5.9 billion would be poured into the subways. The reaction to this in New York so far has been a combination of weary resignation ("they have to do something") and skepticism ("they will never get the money, so why worry"). Everyone concerned about the future of New York should worry like hell that they just might get the money!

If such new debts are incurred on behalf of the existing subway system, the interest bill alone on the bond issues would be at least $500 million a year, and could be $700 million. Very little of the spending will be aimed at cost saving or revenue raising, nice though the improvements—new cars, new signaling, new repair shops, track replacement, tunnel repair, station rebuilding—may be. The great $5.9-billion spend-up—titled a "five year" plan!—is just that, a spend-up. It is not accompanied by any set of proposals to cope with the underlying managerial and financial disease afflicting the subway system. There are no plans for reducing services where demand has dropped, no discussion of abandoning money-losing lines, no revisions of operating procedures to lower costs, no new fare structures or systems to encourage more economical use of subway resources, no proposals for labor saving.

The deficits of the New York subways and the burden they impose on city and state budgets can be expected to increase even more rapidly if the MTA gets away with its grandiose scrounge, borrow, and spend-up plans. Meanwhile, every inadequacy of the subways, from minor irritations to major catastrophes, can be blamed by the MTA on a "lack of money." The existence of an unfulfilled "five-year plan" will provide a scapegoat for every problem, a diversion for every complaint.

The fundamental problem of New York's subways is that they are government-owned and -controlled and therefore the constant subject of politics. The transfer of the subways to private ownership is essential for their survival.

Ramsey's presentation of the case is worth quoting at some length.

The management of privately owned firms is far more efficient than that of publicly owned or controlled firms, simply because of the difference in the pressures faced by management in the two situations. In publicly owned or controlled firms not only are there fewer and smaller personal incentives to be efficient, the fact of political control adds a further and in the end, disastrous thrust to political myopia, to the acceptance of the expedient response, and to seek to solve today's difficulty at a greater cost tomorrow. This is because the time horizon for the payoff from political decisions is very short, often less than a year and seldom greater than a couple of years,... therefore the political reluctance for the long-range solutions.... Better for the politician to curry favor now and leave the problems to the next election, the next administration, the next generation of users. Better a popular stance on low fares today....

THE RISE AND FALL

How did politics and government come to thwart and then to distort what private enterprise built in New York's subways? A little history is instructive.

New York could have had subways as early as London, in the 1860s, but politicians protecting established transit interests—horse-drawn trams and then elevated railroads—delayed their introduction for nearly half a century. Declared a frustrated subway enthusiast, Simeon Church, in the 1870s:

Every year the legislature has been the unceasing battleground of rival interests. All manner of schemes have been pressed with all manner of pictures, plates, drawings, models, and designs, endorsed by imposing certificates, bearing imposing and illustrious names, and urged year by year upon the public and upon the legislature, with all the strength of earnest conviction, supplemented by vast material resources and interests, and yet here we stand, with absolutely nothing done.

Hugh B. Wilson, one of the early railroad tycoons, was one of the first wanting to finance a subway in New York, in 1860. By then the population of the city was 700,000, and it took an hour by horsecar

THERE IS A PRIVATE SUBWAY

James Ramsey may not know it, but private subway lines have not died out completely. In fact, an entirely new subway was built in Fort Worth in the 1960s by Leonard's Department store.

Like many downtown stores at that time, Leonard's was suffering from the growth of the suburbs. To make shopping downtown more attractive, the store's owners wanted to add a huge parking lot or garage. Land next to the store was fully built up, but 24 acres were available a quarter of a mile away along a riverbank. That location, however, would have been much too far to expect customers to walk.

Consequently, Leonard's built a subway line to connect the lot to the store. The line traverses the parking lot's 24-acre expanse, providing four covered terminals, then goes underground for the trip to the store basement. Five St. Louis Car Company transit cars were ordered for the line and remain in service today.

The subway operates six days a week, charging no fare. The present owner of the store, the Dillard's department store chain, figures it's good business to continue the former owner's policy of providing convenient parking access with the subway line. It even lets nonstore customers ride the line at no charge, simply out of good will.

One final point: the store did not invoke the city's eminent domain powers to acquire the right of way for the line. In true free-enterprise fashion, it purchased the rights to tunnel under several properties and under two of Fort Worth's main streets.

—R. P.

Subway cars bearing former owner's name (Leonard's) emerge from tunnel at entrance to store's remotely located parking lot.

Aerial view shows location of 24-acre parking lot and Dillard's department store complex, connected by private subway line.

to get from downtown (the Wall Street area) to what were the fringes of development (now Midtown or 40th Street) where the train terminals were. Wilson proposed a subway under Broadway equipped with glass sidewalks for light and hollow lampposts for ventilation. His rival Cornelius Vanderbilt, who had interests in the existing street transport, declared, "I'll be underground a damned sight sooner than that thing." With other entrenched interests, Vanderbilt controlled the original Tammany Hall Democratic machine that ran New York City Hall, from the time of Bill "Boss" Tweed. Through the whole of the period 1860 to 1900, politics prevented subway construction.

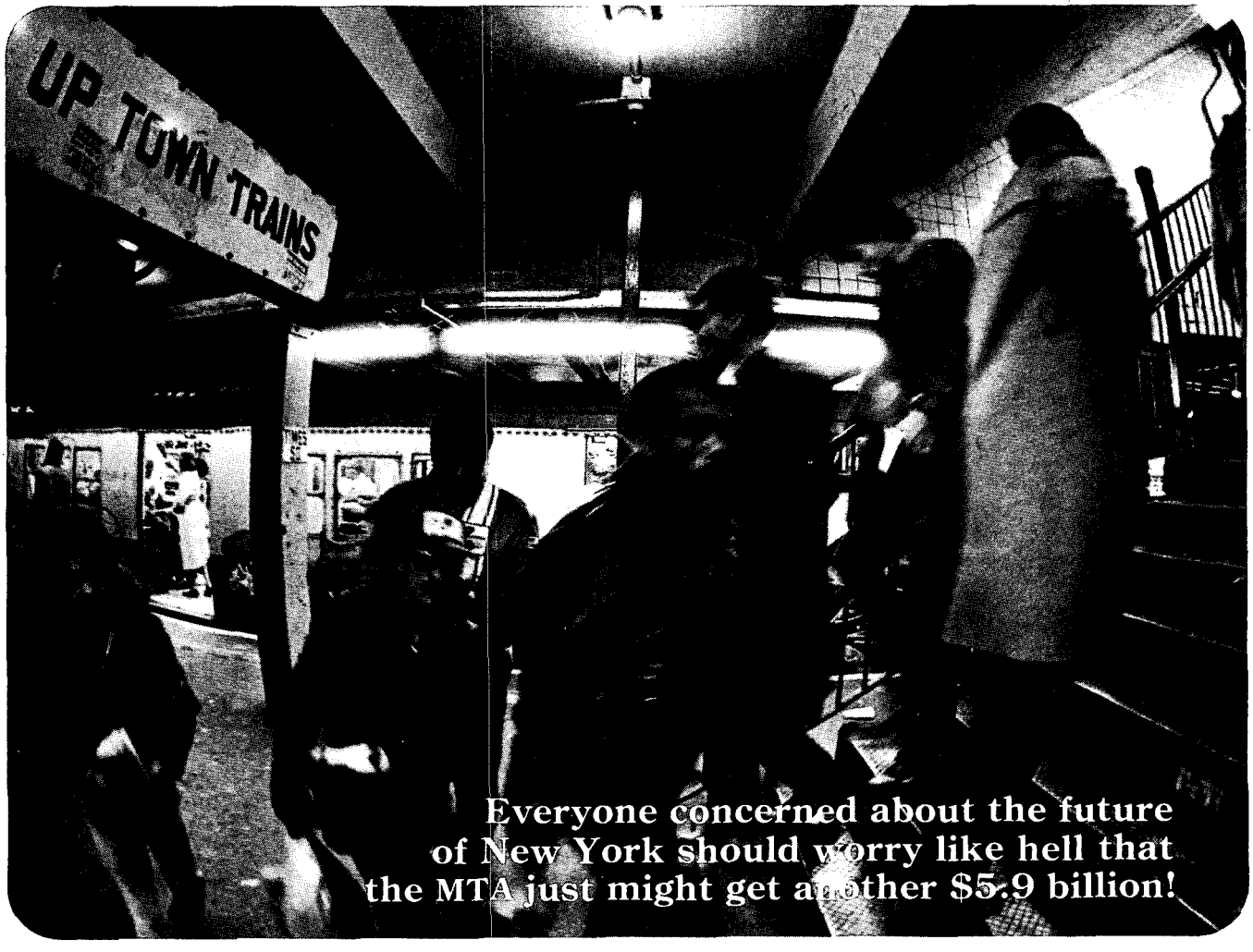
In the end, the political processes succumbed. The first subway, which opened in 1904, was built for its speed ("To Harlem in Fifteen Minutes" was the political and the sales pitch) and cheapness (a "nickel fare," compared to the normal fares of 7 cents to 10 cents for elevated trains and "horse buses"). The first two subway systems, the IRT (Interborough Rapid Transit) and the BMT (Brooklyn Manhattan Transit), were privately financed, though the city kept title to the tunnels and stations. Good profits were made, and these two companies built most of the present amazing system in barely 25 years.

But by the 1920s inflation became a problem as City Hall insisted on maintaining the nickel fare. Mayor John Hylan campaigned vigorously on a platform of "keeping the nickel fare," and a consumerite "Hylan Five Fare Club" lobbied for the fare ceiling. At the state level, Gov. Nathan Miller enunciated the principle that "profitable parts of the system must maintain the unprofitable." That, of course, was to prevent it being run as a proper business, since the closure of operations not supported by the public (at the farebox) is essential. Mayor Hylan had been fired as a driver on the BMT, and it was said that that motivated his hatred of the companies. In any event, the city pressed ahead alone on a third system, the IND (Independent), which began operations in the early 1930s. The city probably overbuilt.

In 1940 the IRT went broke, unable to make it under fare controls, and the BMT was claimed by the city to be in breach of its franchise contract. Both were taken over, and for over 40 years the New York subways have been run by government agencies. Their present physical deterioration and stupendous losses are the despair of New Yorkers—a great pity, because they constitute a great inherited asset that in present hands is being steadily squandered.

The ideal solution: an unconditional sell-off of the subways, line by line, with guarantees of noninterference in their commercial operation. At a recent public seminar at New York University, James Ramsey presented the free-enterprise case for a subway sell-off and sketched a plan for going about it (see box, p. 31).

In private operation, the subways would face strong competition from surface transport and possibly, in parts of the city, from parallel subway routes run by rival operators. Private owners would thus—and rightly—face great pressure to respond to travelers' wishes, to adapt, and to restrain costs. Compared with the MTA, they would have an enormous advantage in dealing with employees and unions because of their very financial vulnerability. They would of financial necessity run a far more consumer-oriented and economical, though not


UP TOWN TRAINS
Everyone concerned about the future
of New York should worry like hell that
the MTA just might get another $5.9 billion!

necessarily a cheaper, service. They might, of course, go broke. Operators that did go out of business would have shown either their incompetence or the lack of an economic demand for the service. There must be no artificial maintenance of service. Cross-subsidization from bridge and tunnel tolls and tax support should cease. Unsaleable or unsuccessful sections of subway would be closed down and offered for other uses.

SELLING THE SELL-OFF

A widespread reaction to the sell-off proposal is that it is "too radical." To which the answer is, Does history, analysis, and logic suggest that anything less radical offers real hope for improving subway service and slashing the costs it imposes? Is anything less radical realistic? Given the massive inertia of an enormous city monopoly agency, why should we believe in the achievability of reform under the present system?

What is radical at one time and place may seem commonplace, commonsense at another. In a large portion of the world the idea of having any railway service at all operated commercially is regarded as bizarre and radical. In my country, Australia, railways were entirely governmentally owned and operated until the 1960s, when iron ore companies built lines from their ore deposits to the loading ports on the northwest coast. In Australia, as in Canada and Japan, broadcasting is part commercial, part governmental, but in much of the world—including some relatively free countries such as West Germany, France, and Israel—governmental monopoly operation of broadcasting is regarded as the norm, and proposals for private ownership are described as "radical."

Of course, there are no glowing examples to be cited of successful privatization of a subway system. But since when has lack of precedent worried New York? The Empire State Building, Grand Central Terminal, Wall Street, the Waldorf Astoria, Radio City Music Hall, Mayor Koch—New York has got all sorts of extraordinary things without there being precedents. The day lack of precedent is seen as a decisive objection to anything serious will be the day to declare the death of New York!

Feasibility? The interests arrayed against a subway sell-off are obvious and formidable. These include the Transport Workers Union, which controls the many privileged jobs at stake; the Metropolitan Transportation Authority, which owns and plans the system; the Transit Authority, which operates it; and many of its subsidized users. Many riders detest the present disservice they receive and would probably say that any change could only be for the better. It would be idle, however, to deny that many others of the three million plus daily users have learned to live with the system as it is and would be rather easily mobilized politically against a sell-off. They would prefer the service, bad as it is, and the heavily subsidized fares, to their image of a commercial system.

In practice, of course, the status quo *cannot* be maintained. Fares are having to be rapidly raised under the present management. But that will not stop the supporters of a municipal monopoly from having a field day with scare sloganizing about business ripoffs, monopoly exploitation, and all the other familiar populist swear phrases.

The *ideas* in favor of the status quo are probably a greater obstacle to change than are the special interests. Once the battle of ideas is won and enough opinion makers and enough of the electorate are persuaded of the case, the politicians will not be too long in legislating against the vested interests. We have seen that when government regulation gets to be widely perceived as a racket against the public run by vested interests, it gets abandoned. Similarly, when government ownership is seen as an interest-based racket, it too will not last long.

But what of the financial feasibility of the proposal? Perhaps the most common objection to a subway sell-off is that no businessman in his right mind would consider taking it on. Kenneth Orski, president of the Washington-based Corporation for Urban Mobility (an organization seeking to "encourage public/private cooperation in transit"), says the Ramsey proposal is "good for its shock

THE RAMSEY SELL-OFF PLAN

"There is no sum of money, no subsidy so great, which cannot be eaten up by union demands and managerial inefficiency. . . . What is needed is some device which will limit union demands to the bounds of reason and concentrate the mind of management on trying to generate an efficient system which serves the public. The following suggestion produces this necessary miracle. . . ."

So saying, James B. Ramsey, chairman of the department of Economics at New York University and director of the C. V. Starr Center for Applied Economics, introduced his plan at a recent public seminar at NYU. "The fundamental elements of the scheme," he explained, "are that there are to be no price controls, no entry barriers to new subway firms other than those dictated by safety, and the city is to share in the profits of the system."

Then he suggested some details:

- **The subways would be sold off line by line over a five-year period, with approximately one-fifth of the system sold each year.**
- **A group of evaluators chosen by the city and by potential buyers would first put together packages of line and equipment that might operate as independent units and would assess the market value of the capital stock of each package.**
- **The assessed capital value of a package would have to be paid by the new owner-operator.**
- **Interested parties would compete on the share of gross profits (net of capital costs) offered to the city. (Ramsey cited a parallel with a California oil-lease sale where this sort of bidding was used.)**
- **The terms of sale would provide for no future government involvement beyond the policing of public safety. All decisions about levels of service, types of equipment, fares, and what lines and stations to operate would be left to the owners, responding to market conditions.**
- **There would be no guarantees of protection from competition, no bail-outs in case of financial difficulty.**

To separate welfare considerations from the problem of saving and revitalizing the subways, Ramsey proposed that the city could, if it so chose, use its share of profits to compensate the poor for increased subway fares.

Present at the seminar at which Ramsey spoke were representatives of the Metropolitan Transportation Authority and city government, transport planners, and other interests and experts. While many expressed political dislike of or skepticism about the sell-off scheme, none could fault its essential logic or come up with any persuasive alternative.

—P. S.

value." But "what serious group of private investors could be interested in acquiring the system in its present state of disrepair?" he asks. Which is exactly the reaction also of the MTA, voiced by Arthur Perfall, director of public relations: "There don't seem to be a large number of buyers out there for a system in which fares only cover half the operating costs." *Could* subway lines be run at a profit?

It would be a surprise if all of the existing system could be run profitably. After all, most of the privately financed lines were complete by the mid-1920s, and there have been huge population and employment shifts since then—notably, declines in population and jobs in the Bronx and Brooklyn, but increases in Queens and Staten Island and in counties beyond the city line. It is said that the municipally financed IND system, built mainly in the 1930s by city politicians hostile to the IRT and BMT company systems, was designed specifically to drive those companies out of business. So antibusiness politics may have led to the subways being overbuilt, at least to the extent its layout has been ossified around the original IRT and BMT lines.

We cannot be sure of the answers to these questions until entrepreneurs are given the chance to bid on and to operate subway lines. Some projections can be made, however.

We know the present subway system is providing rides at an average cost of slightly over $2.00 (although the price to the rider is 75 cents—as of March 1982). Any commercial organization would quickly make a number of quite obvious reforms to lower costs—one-man train operation, elimination of token-booth selling personnel, and payment of market wages. Distance-related fares would put an end to the overcrowding of terminals and raise revenue more in line with costs, as well as enabling more short-trip riders to be attracted. More rational tradeoffs between capital replacement, maintenance, and breakdowns could be made quite quickly. Management would have its mind focused on positive matters of serving the public. Present MTA management, by contrast, is preoccupied with producing a flow of propaganda directed to squeezing more money out of government.

With privatization of the subways, it is not unreasonable to guess that costs might be reduced immediately by some 20 percent and after a couple of years by something like 35 percent. Competitive commercial airlines in the United States operate at approximately half the cost of the government monopoly airlines of Europe. Deregulation of trucking, taxis, and liquor sales commonly brings about a reduction of costs (and prices) to between 60 and 80 percent of those that prevailed before the pressure of competition and free entry.

On that basis, we could conservatively guess that average New York subway ride costs would go from the present $2.10 to the range $1.40 to $1.70. It seems that certain commercial operators would be well placed to maintain present levels of patronage at those kinds of average prices, (say $1.50 to $1.80), given the existing strong demand for "express bus" seats priced at $2.50 and above. The subways, when running, are still far faster than any surface alternative in New York, such is the state of congestion on the roads. So they start with that great advantage. Use of a private car for a round trip into Manhattan involves parking costs of $10-$20, plus unruly, bad-tempered, bumper-to-bumper traffic. The "express buses" are express only in the sense that they do not open the door en route to take on extra passengers. They are far from being speedy!

I consulted several economists, and all express "in principle" agreement with private ownership of transit. Charles Lave of the Massachusetts Institute of Technology stresses that the civil service works at enormous disadvantages in trying to manage a transit system. He says it is commonly accepted in the transport economics profession that New York's subway management has been plagued down the years by mayoral politics. Gabriel Roth of the World Bank, while reluctant to comment directly on the New York system, says a sensible public policy approach to all transit is to let private promoters take the risks and put up the money. He says municipal- and state-promoted transit systems have never been known to produce benefits greater than costs.

Milton Pikarsky, director of transportation research at the Illinois Institute of Technology and former senior officer of the Chicago Transit Authority, observes that the problems of the New York subways are the general problems of municipalized transport. Private transit operators, for example, can get workers for $5 or $6 per hour, while metropolitan agencies generally pay $10 to $12. "Monopoly, municipally owned transit authorities have reached the end of their useful institutional life," he says. "The only serious question is how they will end." Will they be "put out of their misery" in an orderly, piecemeal way? Or will they be allowed to collapse "in an apocalyptic crisis"?

James Ramsey argues for a one-stage decision process, one big leap to private ownership and operation of New York's subways, although the actual transfer from MTA control would be phased in over five years. There might be advantages, however, in pushing instead for a "demonstration sell-off" as a first step. Further privatization could await experience of commercial operation of the test case and debate over its merits in operation. There is nothing like a live specimen to prove viability!

It happens that the old IRT lines are built to lesser car lengths and widths and to tighter rail curvatures and to this day have different equipment from that operated on the BMT and IND systems. So some or all of the IRT lines would be obvious candidates for the demonstration sell-off. The IND consists of three main lines (two of which have major branches in the Bronx and Brooklyn).

The Seventh Avenue IRT (known as such because it follows Seventh Avenue in Manhattan from Times Square down to Greenwich Village) would be ideal as a private enterprise competitor with the MTA system in that it closely parallels the MTA's IND lines all the way from the northern Bronx through Manhattan and out to east Brooklyn. The IRT's Flushing line that goes east from Times Square through Grand Central into northern Queens has IND and BMT lines close by it most of its length. So the sale of those IRT lines would provide head-on competition, MTA versus private enterprise.

Sale of the Lexington Avenue IRT lines, by contrast, could raise cries of "monopolization," since at least on the eastside of Manhattan, this system has no other competing subway within miles. It was once paralleled closely by the Third Avenue "el," torn down in the 1950s. It was to have been replaced by the Second Avenue subway, most of the tunnels of which were built in the late 1960s.

The never-completed Second Avenue subway should definitely be sold off, for completion as a subway or for some other use, instead of moldering away unused, being forgotten as the MTA's first great fiasco. Just after the MTA was formed, work began on this never-to-be-completed line, and the early disposal of the tunnel and station works would be a fitting gesture for beginning the big subway sell-off. ◻

Peter Samuel works in New York City as a journalist. A native of Australia, he arrived in New York in April 1980 and writes on American affairs for Australia's leading weekly newsmagazine, The Bulletin, *and some Australian business publications. This article is a project of the Reason Foundation Investigative Journalism Fund.*

AFTER The Budget Axe Falls

By Dale H. Gieringer

Can the arts, education, job training, science, and aid for the poor survive government cutbacks? Tax credits for charity could be the key.

NOTHING WOULD SEEM more vital to the success of "Reaganomics" than the successful privatization of federal programs being cut back under the Reagan budget. To this end, the president has called on the spirit of private-sector voluntarism to meet community needs. At issue are aid for the poor, the arts, education, basic research, the environment, and countless community programs that might well be supported through private channels.

Unfortunately, however, even as the Reagan program takes effect, private nonprofit organizations are tightening *their* belts. This is partly because many

Collage by Ken Ray

are themselves recipients of federal aid and stand to lose an estimated $27 billion from budget cuts over the next four years. In addition, the reductions in tax rates inadvertently but powerfully discourage private giving by reducing the leverage of the tax deduction for charitable contributions.

For those in the highest bracket, the tax cut effectively raises the net "cost" of a $10,000 donation by two-thirds, from $3,000 to $5,000. This effect is partially offset by a new tax provision extending the charitable deduction to lower-bracket taxpayers who would not normally qualify for itemized deductions. On balance, however, the high-bracket contributions constitute the majority of charitable donations. So despite the considerable amount of money being returned to private hands by the cut, economists are divided over whether it will generate an increase in the amount of private giving—let alone meet the enormous demands of privatization of charitable efforts.

But why should the public consent to this dismal arithmetic? After all, there's no reason taxpayers could not compensate for any conceivable ill effects of the Reagan budget simply by contributing more of their tax savings to private charity. Unfortunately, however, the incentives to do so are weak.

On average, Americans contribute 2.5 percent of their personal income to philanthropy—less than one-tenth what they pay in taxes. In fact, polls have shown that Americans often say they are willing to be taxed more than they contribute voluntarily to causes like the arts, the environment, aid for the jobless, etc. The reason for this is not necessarily laziness. Unlike taxes, contributions are voluntary and are not leveraged by the contributions of 100 million other taxpayers. Voluntarism is by nature hard-pressed to compete with the government monopoly on taxation.

There is a simple tax reform that could change this situation: expand the present charitable tax deduction into a dollar-for-dollar credit, so that taxpayers could write off the *full expense* of their charitable contributions, up to some portion of taxes. In effect, taxpayers would be able to allocate some portion of their tax "bills" in any way they see fit—for the poor, the unemployed, the arts, education, science, the environment, or whatever—the sole restriction being that no one be a direct beneficiary of his own contribution.

The benefits of this reform could be far-reaching and dramatic. A 15-percent credit against personal income taxes could raise as much money as the present total of private philanthropy, or about $45 billion. Private organizations that provide aid for the down-and-out could expand the programs they find effective in their areas. The arts, culture, and scientific research could thrive with none of the drawbacks of federal control, avoiding the political controversies that have plagued federal agencies like the National Endowments, the National Science Foundation, and the Corporation for Public Broadcasting.

Government programs could also be eligible for credits. Taxpayers could then contribute more to, say, the space program, school lunches, job training, or even the departments of Energy and Education.

Under this scheme, government programs would have to *compete* for the taxpayer's dollar. Credits would in effect create a kind of market in which individual taxpayers choose those helping programs they find valuable, rather than having to settle for the decisions of politicians and bureaucrats. Taxpayers who are dismayed with the antipoverty strategies of the Department of Health and Human Services might contribute to more effective private alternatives.

Of course, Congress could still budget more money to HHS if it pleased. Taxpayer contributions, however, would provide a significant benchmark of public support that few politicians could afford to ignore. Furthermore, by promoting private-sector alternatives, credits would undercut the demand for ever-more government programs.

In creating a degree of competition within the public sector, tax credits would attack a root cause of government waste and inefficiency and promote more productive, responsive, and diverse public services. For the first time, the American genius that is sparked by competitive enterprise might be unleashed within the public sector: public programs would be matched against private social entrepreneurs with creative or innovative programs in vying for donations stimulated by the tax-credit rule. The opportunities are endless: private job-training and apprenticeship projects, neighborhood beautification and environmental cleanup, services for the elderly and indigent, preventive health-care assistance, consumer education, or whatever.

It is not unreasonable to suspect that in many cases private services would succeed where government has failed. For example, private consumer-information groups frequently provide more useful, timely, forthright consumer advice than regulatory bureaucracies like the Food and Drug Administration, the Federal Trade Commission, or the Consumer Product Safety Commission.

Indeed, with tax-credit funding, private consumer groups could more aggressively publicize their findings through counteradvertising. Not only would such information be more stimulating than anything emerging from the presses of the Government Printing Office; it would also have the immense advantage of leaving consumers free to make informed decisions about what is in their interests, rather than subjecting them to the dictates of government bureaucrats.

Economically, the basic principle behind credits is to replace government monopoly with consumer choice in the public sector. This marks a radical departure from mainstream economic theory, where it is generally assumed that government must provide certain "public goods" whose benefits are commonly shared. This assumption is taken for granted by all but the "purest" free-market economists. It can be traced back to Adam Smith, who assigned to the sovereign

> *the duty of erecting and maintaining certain public works and certain institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual, or small number of individuals, though it may frequently do much more than repay it to a great society.*

What Smith failed to recognize is that there is no reason at all why the presumed duty of providing certain public goods must be a monopoly of the sovereign. Once the money has been collectively raised, the public individually can just as well allocate it to independent institutions.

Nevertheless, Smith's successors have almost always taken for granted a state monopoly over the provision of public goods. So their arguments have been about what it should provide. Liberal economists, taking a broad interpretation of Smith's "great society," have argued for the inclusion of a host of social programs in the public sector. On the other hand, conservatives have argued for a more restrictive role for government, limiting the public sector to such traditional areas as roads, police, and defense.

Coincidentally, the extraordinary expense of defense has often imparted a de facto military slant to conservatives' budgets, a point often exploited by liberal propagandists. Under credits, this

(Continued on p. 40)

Fighting Back —*In Triplicate*

BY JAMES L. PAYNE

WHEN GOVERNMENT tries to do good, there is more to it than first meets the eye. One of the many indirect effects of programs aimed at righting wrongs concerns the collection of data. Whenever government says, "Let there be more *x*," for example, it can't simply stop there. It has to go ahead and find out where *x* is lacking, the rate of change of *x*, and the phases, modes, and moods of *x*; for until some numbers are gathered, injunctions can't be issued, nor can the dollars flow.

As government mandates the accomplishment of ever-more abstract and diffuse social "goods," the burdens and perplexities of data collecting grow accordingly. This point is perhaps nowhere so clearly demonstrated than in what are euphemistically called "affirmative action" programs. In these programs, the government's aim is to enforce preferential treatment for selected social groups. The major problems with this idea are well known: unfairness, lowering of standards, invasion of privacy, loss of personal freedom, lowering of institutional morale and effectiveness, and a heightening of social tensions and stereotypes—members of the favored group are presumed to be unable to qualify on their own merits.

Less noticed, however, are the problems of data gathering. In order to decide where to punish and where to reward, bureaucrats must collect numbers to justify their actions. From afar, this task may seem simple and straightforward. Only when you get into the process of actually attempting to collect affirmative-action compliance data does the expense and absurdity of the effort become apparent. And sometimes, absurdity is the best rejoinder to absurdity.

I first encountered the data-collecting problem several years ago as a member of the recruitment committe for the department of political science at the university where I teach. After the committee's job was completed and the positions filled, the chairman of the department came to me with an unusual request: would I submit a tabulation of the numbers of ethnic minorities and women in the recruitment pool of some 200 applicants?

Well, I could have labored over the two feet of file folders, attempting to deduce such data from stereotypes. Maybe this Howard Jefferson from Southwest Alabama Tech was black. Maybe that Thea Rolkolsky who wrote a dissertation on "Prejudice against Women in the Sung Dynasty" was female. Perhaps this Jack Harishii-Al was a member of a favored minority.

But, I figured, a scholar ought not to operate this way. There was nothing to do but wing it. I simply made up some numbers, typed them out neatly on departmental letterhead, and passed them along to the chairman. (One can't say my numbers were biased, by the way. I knew the Feds could hit us either way. If the numbers were too small, why weren't we making an effort to enlist the favored groups to enter our applicant pool? If they were too large, why hadn't we hired more of the favored groups with so many to choose from?)

My "objective guess" was passed along to higher levels, duly collated with other such racial and sexual statistical data, and eventually laid at the feet of the vengeful gods in Washington—forming, no doubt, the basis for subsequent complaints or suits against the university.

Sometime later, I had another brush with affirmative action, in the form of a survey from Duke University. This time I was being asked, not whether someone else had a favored status, but whether *I* had. The survey form was sent to me because I run a tiny publishing outfit (so tiny that its yearly losses hardly depress my standard of living), and in 1978 Duke University kindly purchased one of my books—for the princely sum of $3.85 (plus shipping). Three years later, in 1981, the long arm of affirmative action reached into that transaction. The form from Duke University read as follows:

Duke University is in the process of updating and validating its vendor files and your help is needed.

The attached questionnaire will be used to assist us in monitoring our procurement dollars in compliance with Public Law 95-507; therefore, your cooperation is necessary for our compliance efforts.

Please check the appropriate box. We certify that we are (as defined in DAR 1-700-1-700, 14 + 7-104.14):

☐ *Small Business* ☐ *Large Business*

☐ *Small Business owned and controlled by socially and economically disadvantaged individuals.*

We certify that we are:

☐ *More than 50% Female owned.*

☐ *In an Eligible Labor Surplus Area.*

It quickly occurred to me that this questionnaire was probably only the first small snowflake. I had sold books to hundreds of colleges and universities over the years. If all the schools made a

(Continued on p. 40)

PANIC TO THE

BY ELIZABETH

Nitrite

Illustration by Daryl Todd

PEOPLE

M. WHELAN AND KATHLEEN A. MEISTER

yclamates, 2,4,5-T. . . government creates needless fear when it jumps to conclusions.

IT'S BECOMING A HABIT. A government agency performs or commissions a scientific study designed to answer questions about the possible health effects of a substance. The results seem to indicate a hazard. An immediate announcement is made. The news media publicize it extensively, greatly alarming the affected individuals. The agency establishes policies or takes regulatory action. Later, independent experts examine the report and find that the original conclusion was in error. The study was insufficient, flawed, or misinterpreted.

The agency may reverse its decisions, but it cannot help those who suffered economic losses, psychological distress, and so on as a result of its earlier actions. Furthermore, public confidence in the agency—and in scientific findings—diminishes each time its scientific work is discredited. Retractions of earlier government warnings don't reassure consumers. Instead, many people fear that the government, under pressure from this or that industry, is trying to deceive the public so that something that is "known" to be dangerous can continue to be sold and used.

Incidents of this type have occurred all too frequently in the last few years. It would be reassuring if only trivial decisions were affected, or if a single regulatory agency were involved. But, as the following case histories will show, this is not true. Government reliance on studies later discredited by the scientific community has become commonplace.

NITRITE: THE NEWBERNE STUDY

In August 1978 the Food and Drug Administration (FDA) and the US Department of Agriculture (USDA) announced the banning of sodium nitrite as a food additive. Nitrite has long been used as an ingredient in cured meats such as bacon and lunchmeats for two reasons: (1) it inhibits the growth of bacteria, including those that cause botulism, a deadly type of food poisoning; and (2) it contributes to the distinctive color and flavor of these products. The agencies realized that if they banned nitrite abruptly, the risk of botulism would increase. Therefore, they planned a gradual phaseout of this additive, combined with research to develop alternate methods of preventing bacterial growth in cured meats.

What prompted this action? The agencies had received results from a study, performed under contract to the FDA, indicating that nitrite had caused lymphoma, a type of cancer, in rats. Soon after the study's results arrived, a joint FDA/USDA press release stated: "Nitrite has been found to induce cancer. . . . The FDA has received from Dr. Paul Newberne of the Massachusetts Institute of Technology (MIT) a report showing that nitrite. . . causes cancer when ingested by laboratory rats." Dr. Donald Kennedy, then commissioner of the FDA, said, "We know more than enough about the Newberne study to be convinced that it is well done and strongly supports the hypothesis that nitrites are carcinogenic."

The agencies seemed very sure that nitrite causes cancer—sure enough to publicize this alleged hazard widely and to plan a phaseout that would have required substantial changes in the way consumers handle and store cured meat products. Yet others were not so sure, including Dr. Newberne himself. Various parts of his report to the FDA stated: "There was not. . . a convincing dose response. . . . [There was a] somewhat less than convincing case that nitrite is lymphomagenic [capable of causing lymphoma] in rats. . . . [The] data are only suggestive."

The agencies' confidence in the quality of the study was strange, since an FDA inspection of Dr. Newberne's laboratory, conducted while this study was in progress, had shown significant deviations from acceptable laboratory procedures. The researchers didn't identify the animals in a foolproof way; mixups were possible. They used improper procedures for recording data. Necropsies (examinations of dead animals) were performed in the rooms where the live animals were housed, despite the fact that formalin, a chemical used in the necropsies, might have been harmful to the rats. Furthermore, the FDA inspectors observed a laboratory worker attempting to feed *the wrong food mixture* to a group of rats.

Questions about the Newberne study arose almost immediately after the FDA/USDA announcement. The FDA sent the report to several scientists for comment; half of them stated that it lacked sufficient data for a proper review. Several pointed out flaws, including improper statistical methods and the failure to determine possible exposure to nitrosamines—known cancer-causing agents that can be formed when nitrite reacts with other compounds that may be present in food.

Scientists identify lymphomas by examining microscopic samples of body tissue. The identification of this cancer is not straightforward; it requires expertise in pathology and the exercise of professional judgment in questionable cases. Several expert pathologists questioned Newberne's identifications of lymphomas. These were the most serious challenges to the study, since all its conclusions depended upon the assumption that the cancers were identified correctly.

Realizing that their decisions might have been too hasty, the FDA and USDA then asked a group of independent experts to review the pathological aspects of the Newberne study. After examining 50,000 slides of tissues from 2,000 rats, the independent pathologists found a "much lower incidence of lymphoma" than Newberne had reported—so much lower, in fact, that there was no longer any evidence that nitrite had caused cancer in the rats. The researchers concluded that the incidence of lymphoma in rats fed nitrite was 1.15 percent rather than the 10.5 percent Newberne had reported. In rats not fed nitrite, they found that the incidence was 1.5 percent (slightly higher, in fact, than in the treated group) instead of the 5.75 percent reported earlier.

For a variety of legal and political reasons, the agencies had never officially initiated the nitrite phaseout. In August 1980, after the reevaluation of the Newberne study and two years

"MAJOR GOVERNMENT DEC BASIS OF SINGLE, UNREVIEW

after the first press release, came another joint FDA/USDA communiqué: they had dropped all plans to phase out nitrite. But can consumer fears of this substance be eliminated as easily?

OCCUPATIONAL CANCER: THE "ESTIMATES" PAPER

In September 1978 Joseph A. Califano, Jr., then secretary of Health, Education and Welfare, told an AFL-CIO conference on occupational safety and health: "At least 20 percent of all cancer in the United States—and perhaps more—may be work-related. . . . It is estimated that 10 to 15 percent of all cancer deaths in the United States will be associated with previous exposure to asbestos."

Secretary Califano's statements shattered the general consensus that the incidence of occupationally induced cancer is relatively low—from one to five percent of all cancers, according to a widely accepted World Health Organization (WHO) estimate. Where did Califano get his numbers? His figures, which have shown up in almost every subsequent federal document dealing with cancer and the environment, came from an unpublished, unreviewed paper by 10 scientists entitled "Estimates of the Fraction of Cancer in the United States Related to Occupational Factors."

This paper has become the focus of widespread professional criticism and scorn. It was heavily criticized at a conference on cancer prevention shortly after Secretary Califano's announcement. There, Dr. John Cairns, director of the Mill Hill Laboratory of Cancer Research in London, said, "There are several parts of it which seem to be manifestly silly, and anyone who could sit down and do calculations could see how stupid it is." A distinguished epidemiologist, Sir Richard Doll, flatly stated: "I regard it as nonsense."

In an editorial in *Nature,* Dr. Richard Peto of Oxford University noted: "The document was based on the flimsiest of arguments, and reached conclusions which are grossly at variance with easily accessible data. . . . A group of reasonable men can unfortunately collectively generate an unreasonable report." An editorial in the prestigious medical journal *Lancet* said that "its framework is insubstantial, remarkably so," and concluded, with admirable British courtesy, that "it is sad to see such a fragile report under such distinguished names."

The distinguished names are those of ten respected American scientists who "contributed" to the "Estimates" paper. (No one has publicly admitted authorship.) An investigator from the New York-based American Council on Science and Health (ACSH) found that 8 of the 10 scientists responsible for the statistics Califano quoted—the statistics to which they "contributed"—believe they may be incorrect.

When ACSH researcher Ruth B. Schwartz spoke with the "Estimates" paper contributors, she found that many of them disapproved of all or part of the paper. At the time of Califano's speech, they said, they didn't regard the paper as a finished product; they considered it a draft that they intended to revise. Califano should have known this.

Some contributors stated that they had expected the paper to be revised and submitted for publication in a scientific journal. Unfortunately, this step, which would have led to careful prepublication review of the report by cancer experts, never took place.

Several "Estimates" contributors told ACSH that, insofar as it is serving as a basis for policy planning, the report is being misused. (Unfortunately, this is exactly how it *is* being used.) They also said that the paper clearly does not warrant the degree of confidence it is receiving from federal regulatory agencies.

Most cancer epidemiologists believe that the lower WHO estimate of the frequency of occupational cancer is far more realistic than the higher figure quoted by Califano. But the secretary's "20 percent. . . and perhaps more" received extensive publicity and implied that Americans face a major occupational cancer threat. That's what the public and the regulators remember.

With regard to the "Estimates" paper, Dr. Philip Handler, then president of the National Academy of Sciences, stated: "The necessity for scientific rigor is even greater when scientific evidence is being offered as the basis for the formulation of public policy than when it is simply expected to find its way into the market place of accepted scientific understanding. . . . Surely public policy should not rest on observations so preliminary that they could not find acceptance for publication in an edited scientific journal."

2,4,5-T: THE ALSEA II STUDY

On March 1, 1979, the Environmental Protection Agency (EPA) issued an emergency order suspending most uses of the herbicide 2,4,5-T and declaring it an "imminent threat to human health." Why? The EPA had received, one day earlier, a report of an epidemiologic study claiming to show a correlation between the use of 2,4,5-T and the incidence of miscarriages in the Alsea basin area of Oregon.

The Alsea basin is a forested area where 2,4,5-T has been used for a number of years. In July 1978 the EPA stepped up its continuing investigations of the health effects of 2,4,5-T after receiving a letter from eight Alsea women who had experienced miscarriages and suspected the herbicide as the cause.

The first phase of the investigation, Alsea I, examined the circumstances surrounding the reported miscarriages. The EPA investigators concluded that there was no cause-and-effect relationship between the use of the herbicide and these miscarriages and that "there was no real evidence of an epidemic" of spontaneous abortions.

The second phase, Alsea II, began in October 1978. It consisted of a retrospective study of spontaneous abortions in a six-year period (1972-77) in the Alsea area and in two control areas (one urban and one rural) where 2,4,5-T was not used.

The Alsea II report, which prompted the emergency suspension order, presented the following conclusions: (1) there was a significantly higher spontaneous abortion rate in Alsea than in either control area; (2) there was a seasonal peak of spontaneous abortions in Alsea in June, two to three months after the area was sprayed with 2,4,5-T; and (3) the spontaneous abortion rate in Alsea correlated with the quantity of 2,4,5-T sprayed.

An EPA press release called the correlation between the miscarriage rate and 2,4,5-T spraying "alarming" and the June peak "dramatic." One agency official told the press, "Now we have a lot of dead bodies, a lot of dead fetuses, in Alsea."

Since March 1979, 18 different individuals or groups, including epidemiologists, statisticians, and foreign government agencies and commissions, have reviewed all or part of the

ISIONS WERE MADE ON THE ED, UNVALIDATED STUDIES."

Alsea II study. *Each and every one* of the 18 reviewers found that the EPA's data did not support the EPA's conclusions.

One reviewer wrote that "the Alsea II study...is not a sound epidemiologic investigation. The Report contains severe deficiencies in data collection, in analysis, and in evaluation which render its conclusions baseless." Another critic stated that the "EPA erred seriously in each of the three conclusions in the Alsea II report." A statistician concluded, "The Report has fundamental statistical and logical flaws....[It] is self-contradictory....the data do not support the suggested correlation....It would not be reasonable to accord any weight to the Report's conclusions."

What were the statistical flaws? All three sets of data collected by the EPA (records of hospitalized cases of spontaneous abortions, live-birth statistics, and 2,4,5-T spray data) were inaccurate and incomplete. The "June peak" in Alsea miscarriages actually occurred in one year only, and the two control areas showed similar single-year peaks in other months.

A meaningful comparison of June miscarriage rates could only be made if the populations of the three areas were constant throughout the year. But populations change in the Alsea II study areas. Alsea is a coastal area that attracts a large summer population. The urban control area, the city of Corvallis, is a college community, the home of Oregon State University. In contrast to Alsea, this area loses residents in the summer.

The EPA collected data only on *hospitalized* spontaneous abortions, even though not all women who miscarry go to a hospital. In Alsea, an estimated 70 percent of all miscarriages resulted in hospitalization; in Corvallis, where the pattern of medical care was different because of the presence of clinics, the estimate was 30 percent; there was no estimate for the rural control area. Yet the EPA compared the rural data with the other two sets without correcting for these crucial factors.

When the rates for Alsea and the urban area were compared, no correction was made for the 70/30 difference. If the total miscarriage rates in Alsea and Corvallis were exactly the same, this error alone would have made the Alsea rate appear to be more than twice the Corvallis rate. One reviewer reanalyzed the data, making the 70/30 correction. He found that the ratio of miscarriages to live births in Alsea was actually *lower* than that in Corvallis. In fact, the ratio in all three areas was lower than the national average.

One reviewer of the Alsea II study, commenting on its larger implications, wrote: "The critical issue is how the EPA makes a risk assessment and the quality of the research they use.... The EPA needs to be able to evaluate research quality, even when it is developed by its own personnel....No one was well served by the incorporation of the Alsea II study into the regulatory process...least of all the EPA itself, whose very credibility has been tarnished."

THE LOVE CANAL CYTOGENETICS STUDY

On May 17, 1980, the EPA announced that a study commissioned by the agency had found chromosome damage in 11 of 36 residents of the Love Canal area in New York State. Although there had been several other studies of the health effects of hazardous wastes buried at Love Canal, the press and the public regarded this one as the most significant. For the Love Canal residents, who had been frightened and confused by two years of conflicting reports about long-term effects on their health, this announcement was the proverbial last straw. They demanded to be evacuated from the area, and President Carter approved an emergency relocation several days later.

The examination of white blood cells for chromosomal abnormalities (cytogenetics) is a sophisticated but now well-recognized procedure. Even so, the health significance of such abnormalities is uncertain. A group of people exposed to a toxic substance may have more damage than a similar unexposed group, but these effects may be transient and may not represent a true disease condition. Chromosome abnormalities may also be caused by other factors, including virus infections, sunlight, X-rays, cigarette smoking, and aging. Thus, it is difficult to attribute these changes to one single factor.

Despite these uncertainties inherent in the test, the EPA contracted with Biogenics Corporation of Houston to conduct a chromosome study on 36 Love Canal residents. The agency needed support for its lawsuits against Hooker Chemical Company, the firm that had dumped the wastes at Love Canal many years earlier. It was never intended to be scientifically rigorous. Unfortunately, it was so utterly lacking in rigor that its results are scientifically (and probably legally) meaningless.

As several cytogenetics experts noted after the study had been completed and announced, the validity of this test depends on a comparison of results from exposed subjects with unexposed control subjects. Samples from both groups should be processed and examined together. To avoid experimenter bias, laboratory workers should conduct their tests without knowing which samples belong to which group.

The EPA study, however, included no control group, making meaningful analysis of the study group impossible. The only significant results of the cytogenetics study were increased psychological suffering by the Love Canal residents—and an enormous expenditure of the taxpayers' money for the relocation of these people.

Unfortunately, this study has not been the only problem in the Love Canal investigations. Despite an immense amount of work by researchers from federal and state agencies, the actual health effects caused by the Love Canal wastes are still unknown. According to Lewis Thomas, the chairman of a review panel commissioned in 1980 by New York's Gov. Hugh Carey to evaluate studies of the area, "Many of the events of the past two years have fueled rather than resolved public anxiety and questions regarding the possible health effects of hazardous wastes at Love Canal." The ill-conceived cytogenetics study was certainly one such event.

GOVERNMENT MISUSE OF SCIENCE

These incidents share a common feature—a government agency announced and acted upon a scientific finding first and permitted independent experts to review the report later. As these incidents show, the reverse order of events would clearly be preferable. It would also be normal scientific procedure—to evaluate results first, and make use of them later.

Evaluation of a study by other specialists in the same field, a step known as peer review, is an essential part of the scientific process. A report cannot even be published in a reputable scientific journal until it has undergone and passed this type of review. Furthermore, if the results of an experiment are unusual or particularly important, the scientific community

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Triplicate

(Continued from p. 35)

dutiful, law-abiding effort to comply with PL 95-507, the questionnaires coming my way would soon swell into a full-blown blizzard. I'd better try to do this first one right, I thought.

I went to work on the questionnaire with a will. I checked the first box, "Small Business," without hesitation. Being very sharp on logical traps often laid in questionnaires, I cleverly avoided checking the "Large Business" box.

The next item was perplexing. Surely there were many senses in which I was both "socially and economically disadvantaged." Many find me rude, and I'm not the friendliest guy in the world. We still don't have a color TV. And one of my colleagues pointed out that I was not a member of the Briarcrest Country Club. (My wife thereupon argued that I hadn't *tried* to join—but that was, I said, because I couldn't afford it.) On balance, I decided to check the third box.

Female ownership? I scratched my head. Three of the four members of our family are female—and Texas is a community-property state. Check.

In an Eligible Labor Surplus Area? Did they mean at the time that I made the sale, or now, or at some future date? Maybe DAR 1-700-etc.—whatever that was—would answer the question, but I wasn't about to hire a lawyer to have it unearthed. Besides, the idea was creeping up on me that checking boxes (except, of course, "Large Business") was a smart thing to do: if I put enough A+'s on my report card, Duke University might be forced to buy my entire stock!

I signed the form, dated it, and mailed it back. And then I sent Duke University the bill for my consulting fee for filling out the form—$385.00. I figured that if Duke, the federal bureaucracy, and the US Congress had decided this information was worth the thousands of man- (and person-) hours they were obviously putting into collecting it, the price should reflect a source of quality and distinction. Otherwise, people might begin to suspect that affirmative-action statistics are simply a phony game to dupe the credulous—and to keep the rest of us too busy to care.

Several weeks later, I received both a long-distance phone call and a two-page letter from an uptight "Assistant Contract Administrator" at Duke who failed even to suspect I might be joshing him. They had sent out, he wrote, *10,000* such forms and were horrified at the idea of paying for the "answers." Loath to sever the endless skein of red tape, however, he invited me to further clutter up his desk by replying "in writing within fifteen (15) days from the date post marked on this envelope."

But enough was enough. When someone doesn't get a joke, you don't explain the punch line. ◧

James L. Payne teaches at a major university in the southwestern United States.

Budget Axe

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would be less of an issue, since taxpayers could contribute to guns or butter, as they see fit. In this respect, credits offer a constructive alternative to the traditional prescription of domestic budget cuts. Politically, credits have the unique appeal of offering more and better public services *precisely by means of reducing government control.*

Legislators, of course, would have to settle various technical issues before a tax-credit system could be implemented. They would demand guidelines to prevent flagrant abuse of credits, such as the creation of bogus charities to evade taxes. Evasion is also possible under the current system of deductions, of course, and is one reason why the Internal Revenue Service oversees nonprofit organizations. Credits would, however, make cheating more lucrative and thus would probably involve increased IRS oversight of charitable organizations.

Further questions would inevitably arise over the conditions of credit eligibility. As under the current deduction system, a tax-credit system might also exclude membership dues in nonprofit organizations to the extent that the dues gain benefits for the members. In the case of religious organizations, legislators may decide to part from the present system and distinguish between contributions spent on works of charity and contributions spent on more comfortable pews or on other, sectarian ventures. This is an important consideration, since one-half of private philanthropy currently goes to religious organizations.

The additional question of what portion of the income tax to allocate to credits would also have to be decided. Given the current controversy over the mounting federal deficit, legislators would most likely oppose a measure that would mean less federal tax revenue. Credits, however, would *alleviate* many of the problems posed by the Reagan budget cuts. The implementation of a tax credit limited to 10 percent of one's income-tax liability, for example, would free up approximately $30 billion for private giving—enough to cover all of the fiscal 1982 cutbacks in funding for social programs, with a huge amount left over—an amount equivalent to the budgets of the National Endowments for the Arts and the Humanities, NASA's planetary exploration program, the Corporation for Public Broadcasting, and the US Olympic Committee to boot.

The tax-credit principle could be taken a long way. Eventually, perhaps, the ceiling on contributions could be abolished, so that taxpayers could determine for themselves just how much of their tax-designated income to allocate to government. In such a world, government spending would be largely determined by more direct taxpayer demand, though Congress would still control the overall tax bite, as well as the appropriation of excise taxes, tariffs, and, possibly the corporate income tax (which could, however, also be made credit-eligible).

By being able to contribute the full amount of their tax liability to programs of their choice, taxpayers could avoid paying for any programs they disapprove of. Moral Majoritarians, for example, would not have to contribute to the subsidization of secular humanism, nor pacifists pay for weapons. Even in foreign-policy matters, taxpayers could pick and choose just what foreign countries, if any, they wished to aid.

Even short of this, however, tax credits would provide enormous benefits. A modest ceiling of 10 or 15 percent of taxpayer liability could go far to reverse the trend of recent decades towards ever-greater dependence on government. Rather than look to politicians and bureaucrats to fund public services, taxpayers could take matters into their own hands. This might undermine the whole system of pork-barrel politics—a proposition that not all politicians will look upon favorably, of course.

Nevertheless, few reforms could offer a more attractive way out of the long-standing zero-sum game between proponents of government-provided services and advocates of limited government. By giving all taxpayers some direct choice in how their money is spent, there is no reason that both goals—the provision of human services *and* limited government—could not be achieved. Taken seriously, there is no telling how far such a reform might lead toward a society that respects individual freedom. ◧

Dale Gieringer is a public- and social-policy consultant with the Decisions and Ethics Center of Stanford University's Department of Engineering-Economic Systems.

Dollars & Sense

It's time we invested in rethinking the regulation of banking.

By Alan Reynolds

DESPITE ALL THE TALK these days about reducing the cost and uncertainty of government regulation of business, there is surprisingly little serious attention paid to the web of regulations binding our financial institutions—quite possibly the most heavily regulated industry of them all. Few businesses are so tightly reined in as to where, with whom, and at what price they do business.

For years, the standard procedure in economics courses was to define a competitive system in such a way that it could not possibly be achieved. Deviations from the ideal were then labeled "imperfections," which was true by definition. This "imperfect" market was contrasted with the assumed *omniscience* and incorruptibility of the public sector. Wherever one could find a plausible flaw in the workings of private markets, a simple leap of faith led many to assume that government regulation was sure to fix it. After all, we were told, people in the private sector are motivated by private greed, while those in the public sector have only the public's interest in mind.

In regulating financial institutions, however, even the usual rationale for regulation is difficult to apply with conviction. There is indeed some lack of competition within formal channels, but it is entirely the product of the regulatory process itself—laws governing the

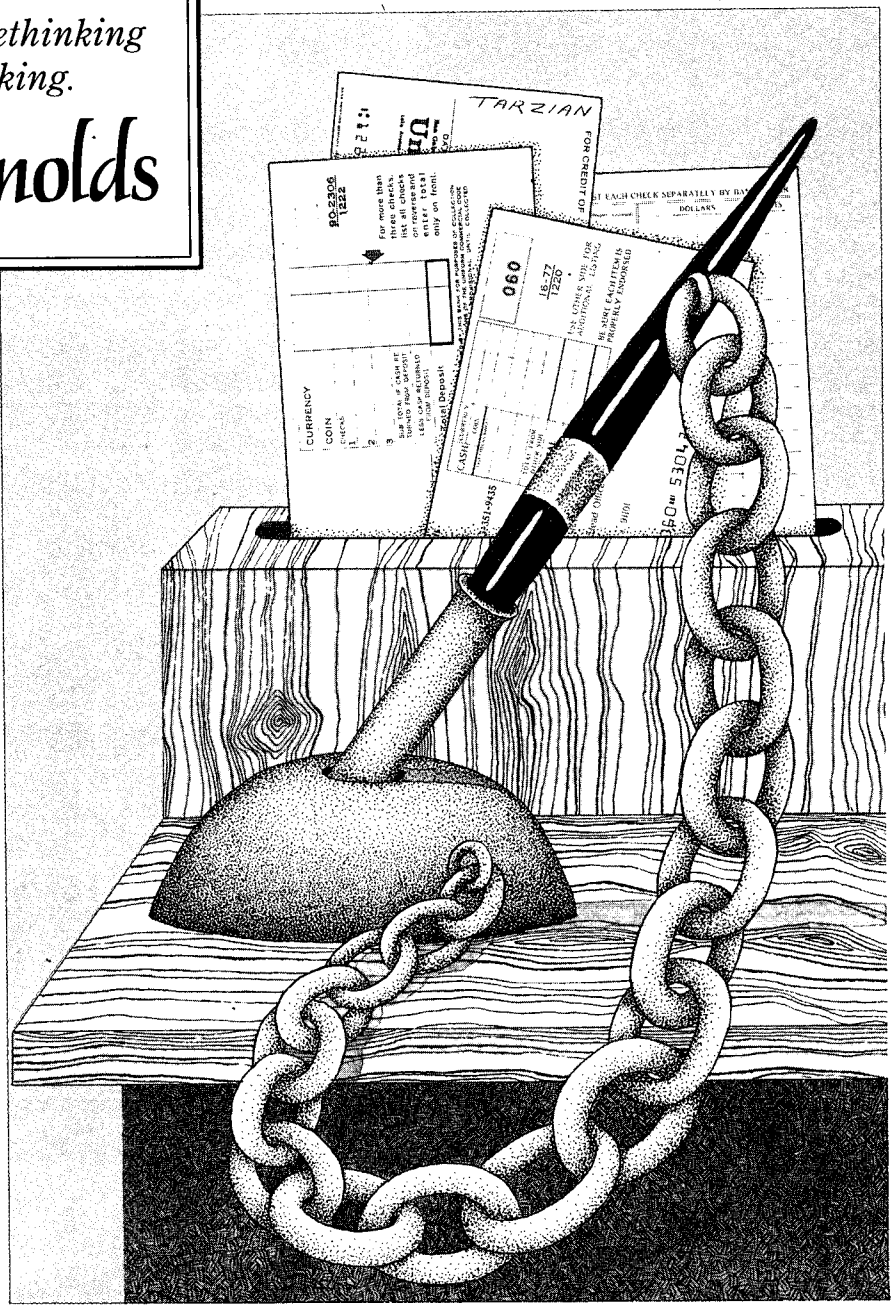


Illustration by Donna Tarzian

establishment of bank branches and controlling interest rates, for example. These can scarcely be used as an argument for more regulation. "Imperfections" in financial markets are either directly caused by regulation or are an inevitable consequence of the absence of perfect knowledge and foresight—a condition that even afflicts regulators.

A more cynical (and therefore more realistic) explanation for regulation in this area is probably most relevant. This theory suggests that political officials offer regulations in an effort to gain political support. Any regulation, after all, benefits somebody and, in effect, taxes somebody else. There are only two legal ways for an individual or group to acquire more goods and services: either more must be produced and traded, or the political process must be used to acquire goods and services produced by others. An outright tax-and-subsidy scheme, however, would usually be too obvious a way for politicians to buy the votes of those being subsidized; they might lose the votes of those being taxed. The benefits of regulation, in contrast, can be quietly conferred on various organized groups while the costs are quietly dispersed among a large group that has little motive to find out what is going on.

Regulation of financial institutions, for example, has been artfully crafted to aid mortgage borrowers at the expense of less-affluent small savers or to aid certain other classes of borrowers at the expense of the financial institution's depositors and stockholders. But it doesn't work. Money flows too easily around regulatory barriers. People can and do figure out ways to circumvent such barriers faster than regulators can dream up new ones.

What regulation does manage to do is simply to lessen the ability of the most tightly regulated financial institutions to compete with a growing number of less-regulated alternatives—commercial paper, money market funds, and credit unions, for example. If we continue to burden financial institutions with regulatory costs and risks, borrowers and lenders will get together outside such formal channels, using relatively inefficient alternatives. Financial instruments and institutions will be selected on the basis of their exemption from the regulatory tax, rather than on quality and underlying cost.

IN THE EARLY 1930s, the federal government raised tax rates and tariffs, pushed unionization to raise wage rates, and let the banking system collapse. The resulting depression was, of course, blamed on the private, competitive economy. So we had a flurry of regulatory activity to restrain competition and foster cartels.

In lending, laws were passed carving up pieces of the business by area and function. Limited franchises were given to banks, thrifts, and securities firms, with protective walls built between them. Other laws set interest rates on deposits, because it was felt that bankers, if left to their own devices, would give away all their profits to consumers.

The regulatory structure for commercial banks consists of geographic limitations on deposit gathering, or branching (the McFadden Act, state laws, the Banking Act of 1933, and the 1956 Bank Holding Company Act), price controls on interest rates paid to consumers (Regulation Q), investment banking restrictions (Glass-Steagall), and prohibition of payment of interest on demand deposits (Banking Act of 1933). Banks are regulated by the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and state regulators.

Time is now tearing down all the old walls, however, and competitive market forces are prevailing. Eyes opened when the largest insurance company, Prudential, acquired the eighth largest broker, Bache. They opened wider when American Express acquired Shearson. But these were just small parts of an ongoing evolution that began years ago.

The auto companies have huge financial arms. GE credit is big in term loans. Sears has a bank, an S&L, a gigantic insurance company, and 22 million credit cards. RCA owns a finance company. Bechtel owns Dillon Read. Merrill Lynch is big in real estate, mortgages, relocation, and everything else. The Merrill Lynch Cash Management Account not only pays market rates on demand deposits but tosses in a Visa card, cash advances, and overdraft privileges. Merrill Lynch, however, is not a bank. Banks can't engage in finance or commerce, but financial and commercial firms can and do engage in banking.

In a state, such as Illinois, with no branching at all, except for tax-exempt credit unions and federal S&Ls, the increasing absurdity of geographic restraints becomes obvious. Research by Larry Mote of the Chicago Federal Reserve Bank indicates that branching provides lower interest rates on loans, higher rates on deposits, more consumer lending, and great mobility of funds from surplus to deficit areas. Where branching is allowed, the larger, more-diversified banks are also safer. That is, competition works. It would work for banks operating across state borders, too.

The reality of the financial world makes geographic limitations unenforceable, anyway. Domestic banks are not allowed to operate out of state, but Morgan Guaranty and Chase have moved into Delaware, and Citibank set up credit card operations in South Dakota (to escape usury laws). All major banks have Edge Act branches for international business, and the Fed is moving to include domestic business of some international firms.

When I deposit money in my New York money market fund, its managers buy large certificates of deposit (CDs) from banks in Chicago, so a New Jersey resident is really depositing funds in Chicago. With an American Express "gold card," funds can be withdrawn from a participating bank anywhere in the nation.

Limits on branching also take their competitive toll. If financial service companies are ranked by their 1979 income, only 2 banks appear in the top 10—Bank of America ranks fifth, behind the biggest insurance companies; Citicorp, seventh. Other slots are filled by Sears and American Express.

In 1972, four US banks were in the top 10 worldwide; by 1979, there were only three within the top *12*. There are over 100 foreign banks in this country, with assets well above $100 billion. One operates 100 branches in six states. Foreign banks capture about a third of the business loans in New York and California. They can acquire US banks when other US banks cannot.

Just as foreign banks and electronic terminals are straining the credibility of geographical limitations on deposit gathering, money market funds are straining the credibility of legal limits on the interest paid on deposits. True, the Monetary Control Act of 1980 does require that passbook rates be raised to 6 percent by mid-1983, but that doesn't worry the money funds too much.

Requiring regulated institutions to hold reserves that pay no interest is a very heavy tax when interest rates are high. It raises the cost of deposits, making loans more costly and less competitive with unlicensed alternatives like commercial paper. Ingenuity helps here, too, but not enough. Reservable deposits can disappear overnight into Caribbean Eurodollars or repurchase agreements, becoming just as spendable the next day as money. Money funds can convert large CDs into checking accounts, circumventing the steep reserve tax on demand deposits. Slap reserve require-

Saving the S&Ls

IT IS EMERGING as a major policy battle of the immediate future: how to save the failing savings and loan associations. The sides are now taking shape—those who would deregulate the industry versus those calling for multi-billion-dollar bailout plans.

Just how bad off are the S&Ls? In a policy paper released in February by the Washington-based Cato Institute, analyst Joe Stilwell writes that the "*most optimistic* figures suggest that at least a $100 billion difference exists between the balance sheet figures and the market value of the associations' assets." With an official net worth of $26.7 billion, then, "the S&L industry," Stilwell calculates, "has a negative net worth of roughly $70 billion."

Other indicators also show a seriously declining pulse. In 1981 the S&Ls suffered record withdrawals of nearly $6 billion. Instead of selling off assets to maintain liquidity, the associations resorted to massive borrowing of below-market-rate money from the Federal Home Loan Bank (FHLB) system, to which the industry now owes about $57 billion. Such loans are increasing monthly. Mergers within the industry are occurring in rapidly growing numbers, too. The FHLB board—a federal overseer of the S&Ls—has classified almost 400 S&Ls as having "substantial difficulties." "Regardless of changes in the economic climate"—that is, whether interest rates rise, fall, or remain at present levels—"numerous S&Ls," Stilwell predicts, "will be unable to meet their financial obligations." Indeed, according to FHLB board chairman Richard Pratt, if interest rates remain at current levels, one S&L will be reduced to zero net worth every business day.

Ostensibly, the S&Ls' problem is that their earnings from older, low-interest mortgages cannot cover the high rates they must offer to attract new deposits. Fierce competition for those deposits comes from institutions able to offer unregulated interest rates. So great are the S&Ls' losses that in February Rep. Fernand St. Germain, a Democrat from Rhode Island, introduced a $7.5-billion bailout bill for the industry. In addition, two industry trade groups—the US League of Savings Associations and the National Savings & Loan League—have both proposed government-aid plans, the latter group calling for a $15-billion bailout.

But these "patching up" programs, which, according to Stilwell, ignore the root problem plaguing the S&Ls—continuation of a long history of government involvement in and regulation of the industry—"can only put off the fundamental problems. And the unrealized losses will grow larger during the patching process." Government restrictions on S&L activities hamper the associations' ability to respond quickly and freely to market forces, and government solutions—subsidized loans, for example—perpetuate poor market adaptation. Deregulation, says Stilwell, is the only effective medicine for what he calls "an ailing giant teetering on the brink of collapse."

Several deregulation plans have appeared of late. Last October, Republican Sen. Jake Garn of Utah introduced a bill to allow the S&Ls to expand their activities and become more competitive in the financial-services market. In February, the FHLB board also proposed to widen S&L activities to permit the beleaguered associations to grant corporate loans and checking accounts, sell money-market funds and insurance, and act as real-estate agents in the buying and selling of homes.

In addition to these deregulatory proposals, the *Wall Street Journal* in a series of editorials has recently articulated its position in favor of broadly deregulating the entire financial-services market, including the "severely squeezed" S&Ls. The *Journal* warns that "without heavy-duty pruning, we put important institutions at risk and forgo the advantages of competition."

The S&Ls have largely welcomed proposals for deregulation, though there is concern among them about the failures that would inevitably follow from freeing the market. The concerns are not unfounded. "Deregulation," writes Stilwell, "will result in many losses to investors as decades of financial misallocations are liquidated, but deregulating will also eliminate the underlying problems."

—**E. M.**

ments on these innovations, and others will appear the next day.

A money market fund may buy a bank's $100,000 CD, carve it into a hundred $1,000 units, and charge a fee for doing so. If it were not illegal, strong banks would gladly provide that service with a higher return, simply by eliminating the middleman.

ALTHOUGH ECONOMISTS speak fondly of competition as an alternative to regulation, financial institutions are getting more of both—more competition and more regulation. Since 1974, there have been at least eight major new laws regulating banks and thrifts, usually with words like *truth, fairness,* and *equality* in their titles. If Congress faced any standards of truth in labeling and open disclosure, these laws would have to be renamed. In practice, very few government regulations of financial institutions make any economic sense whatsoever.

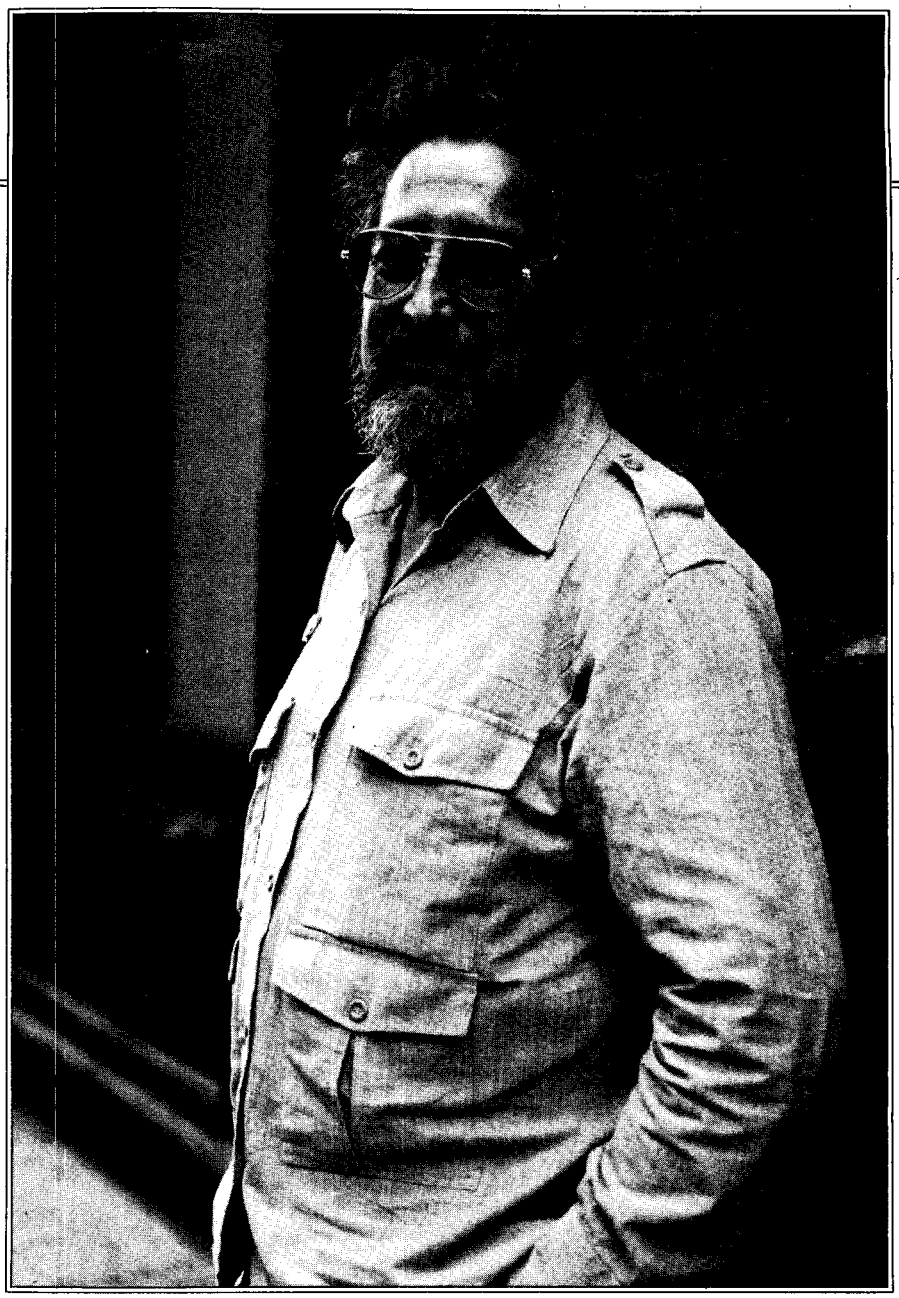
But the useless nuisance of existing regulation pales before the threat that unelected regulatory officials may increasingly be empowered to dictate who shall receive credit on what terms. The political power implicit in such bills as the Credit Control Act of 1969 is truly awesome, and the Community Reinvestment Act of a decade later has the potential to be abused for similar purposes.

Whenever something is scarce and desirable, including credit, there must be one of three rationing devices to decide who gets what. The only alternatives to the price system are rationing by political preference or the queue ("first come, first served"). The price system allocates resources toward uses that consumers value most highly. A price system, for example, will channel credit toward uses that are expected to yield sufficient return or satisfaction to justify the interest expense.

Political preference, on the other hand, allocates resources to those with the most political clout—organized interest groups that can mobilize votes and campaign contributions, or those willing and able to offer less-subtle bribes. Needless to say, the poor and uninfluential do not fare well in any scheme built on political influence and priorities. Their purpose is, instead, to serve as a rhetorical device to disguise what is really going on. A political system for allocating credit carries great promise as a vehicle for fostering graft, corruption, and wasted resources—and reelection.

The federal government is, of course, already deeply involved in channeling credit to politically favored uses through

(Continued on p. 49)



Karl Hess was present at the creation of the New Right: he was a founder of National Review, *a Goldwater speech writer in the campaign of 1964, a well-placed employee of the Republican National Committee.*

Now, having been purged from the party after the Goldwater deluge, and going through a career as a welder, lecturer, technologist, tax resister, and other useful pursuits, Karl finds himself rather comfortably, though not elegantly, ensconced with his partner and wife, Therese, on a small parcel of West Virginia real estate in a self-built home. From this base of operations he and Therese edit a newsletter, Survival Tomorrow, *go to country auctions in search of antiques for resale to wealthy Washingtonians, and practice anarchist living.*

Free-lance journalist A. Lin Neumann sat down with a tape recorder and Karl Hess recently to talk about the state of the nation, the state of the right, and what Karl thinks about the current crop in the White House. As they talked, Neumann reports, Karl demonstrated his latest project: learning to print the English alphabet. Just print. It's part of a seminar he attended held by Volunteers in Literacy to America. It seems that when you teach people to read and write, script won't do and a typewriter is downright impractical. So Karl has laboriously relearned one aspect of his ABCs.

"The simplicity of printing," says interviewer Neumann, "contrasted with the difficulty of learning how to print, seemed an appropriate metaphor for the Hess message: it is easy to be free but often hard to exercise that freedom."

REASON INTERVIEW

Karl Hess

REASON: Karl, how did it all begin for you? When did you start to get involved in politics?

HESS: I remember when Roosevelt was elected and my mother, who was a switchboard operator, had the good sense to realize he was a social fascist despite all the good things he said he wanted to do, specifically for people like my mother. She was poor but had once been married to a very rich man. I guess she had views of both worlds. But she understood that

Photograph by Len DeLessio

he was going to do this sort of stuff at the point of a gun and generally speaking was going to make the middle class pay for it, all of which was true. She thought well; she didn't have access to much information, but she was a good thinker. So I was impressed. By the time I was nine years old I was living with a woman who was politically analytical. These were matters of great concern to her.

We talked about it a lot, and since she had the good sense to teach me to read and write, we read about it a lot. And she was a great admirer of H. L. Mencken, so I read Mencken when I was quite young. She was at the same time an admirer of George Bernard Shaw, so I read the English socialists and the American individualists at about the same time. For a young person, some of the idealism of socialism is very attractive; and if you're guarded by an attention to individualism, this idealism really can't hurt you. Then I read a lot of the then fairly popular anarchists, or libertarians—people like Frank Chodorov. My mother had always discussed with me the notion that the most important person on earth was yourself and this applied exactly to every other person too.

I really didn't like Roosevelt, that whole gang, my sense even as a kid was that he was an emperor of sorts, very elitist. I went to work when I was 15, and by that time I was an absolutely thoroughgoing Republican because the Republicans opposed Roosevelt. I knew that other people opposed him too, but it just wasn't convenient to be a Communist, mostly because I couldn't get to be one. I tried annually to be one, but they wouldn't let me play—too young, too suspicious, I suppose. Well, my mother was a working woman. Why should they trust anyone from a working-class family? And she hadn't graduated from high school, as I didn't.

I did get to be a socialist—a Norman Thomas Socialist. It was because I thought the ideals were just great, but when you go to a few socialist meetings and you discover that the ideals, which I thought had to do with the importance of the individual, are to be put into action by extinguishing the responsibility of the individual and replacing it with corporate power—corporate political power, in effect—then it's not so good. So I stopped being a socialist and just became a regular Republican but with very definite libertarian leanings. I thought they were shared by most Republicans, but they certainly weren't.

I went to work for the Republican National Committee—I forget how old I was then, but I was just a teenager. That was in the time of Dewey. It was mainly that anyone who opposed Roosevelt seemed pretty good. By the time I got to be an official grown-up, the Republican Party was pretty well divided into a tiny minority of old Taft-type conservatives and libertarians—people like Frank Chodorov and others—and the new big-business, Cold War faction of the party. By the time Eisenhower knocked off Taft, the idea of the Republican Party as pro-individual and pro-enterprise was pretty much over with. But by that time the Cold War was so popular that those seemed almost trivial matters.

I think you'll find in the progress of a magazine like *National Review,* which I helped found 25 years ago, that in the early issues there was a considerably stronger influence of libertarians. There was some room for individualism. But as the Cold War progressed, all of that ended. *National Review,* like all of the conservative movement, became a collectivist enterprise. Specifically, the national interest superseded the interest of the individual, and the definition of efficiency overpowered the definition of enterprise.

REASON: What were the ideals behind the founding of *National Review* and what's now called the New Right?

HESS: It was wholly anticommunist, and it still is.

REASON: The basis of your participation was anticommunism as well?

HESS: Sure, anticommunist. Anybody who *doesn't* dislike the Soviet Union is sort of dippy. It's a really detestable place, and it's easy to crank up a lot of dislike for them. It just sweeps you away, and after awhile you don't talk about anything else.

REASON: Who were the prime movers? Who really bounced things along in the early days?

HESS: I would say two, and only two, of any great interest. William F. Buckley, Jr., and William F. Baroody, Sr., the founder of the American Enterprise Institute (AEI). Baroody was probably much more important. He was actually more thoughtful and had more of a vision beyond anticommunism. AEI, which was founded in the late '40s, early '50s, is the fountainhead of the New Right and the most important part of it. It is also very serious; it's very reputable; it does good work. In other words, if the New Right is to have an intellectual base beyond the simple theology of hating the Soviets, or hating communists, or hating Marxists, it will come out of AEI.

REASON: In 1964 it was essentially AEI and company that captured the Republican Party?

HESS: No, the party was captured by and large by a feeling that was very prevalent among grass-roots Republicans. They really hated the Rockefeller wing of the party. That's easy to understand—it was wishy-washy, suspicious, had nothing to recommend it, and yet it had great power. So there was a grass-roots rebellion, and AEI's people were able to ride on the surge of that rebellion. They gave good expression and academic reasoning for what was a deeply felt thing. They simply wanted the Republican Party to stand for something quite different from the Democrats. And mainly, again, this was Cold War—to stand up to the Soviets.

REASON: Did the movement change as the '64 campaign developed?

HESS: It's become more openly socialistic since then—socialistic in the sense of advocating national power. I think its last vestiges of individualism, or libertarianism, were dropping out of it by the end of the Goldwater campaign. The Goldwater campaign was really conducted against national power.

REASON: What did you have to do with that?

HESS: Everything.

REASON: They were your speeches, your ideas?

HESS: Well, they weren't my ideas. They were widely shared. They were AEI's ideas.

REASON: What was your relationship to AEI?

HESS: I was director of special projects there. And, yeah, sure, AEI staffed that campaign as it has staffed every Republican campaign since then. And I must say it was fairly broad-based. There were some libertarian notions. It was a flat-out anticommunist campaign, but there was still the antinationalist part of it. It didn't extend to the military establishment, except that Goldwater was against the draft—flat-out,

no compromise, no possibility. It was Goldwater's first campaign pledge, to end the draft. End. E-N-D. No more draft.

So change in the movement, I think, only started to manifest itself, so that no one could miss it, oh, three or four years ago. It was only at that time that the policy of reindustrialization first surfaced—which I think is the shared vision of the Republicans and the Democrats.

REASON: Let's leave reindustrialization for a moment. So you left the Republican Party in the post-'64 cleansing, and you continued to work for Goldwater. Politically, this is the time you moved toward explicit anarchism?

HESS: Yes, and I didn't even know what an anarchist was. The most influential person in that change was Murray Rothbard, a libertarian—*the* libertarian—economist. He wrote an article in *Ramparts* about the similarity between the New Left and the Old Right that just astonished me. And he wrote it at a time when I could see it reflected in reality, because I then knew a lot of people in the New Left. I called him up—he lived in New York—and I said, "You don't know me from Adam's off-ox, but I just think that's the best thing I've ever read." Well, it turned out he did know of me, so I went up to New York, and for the first time in my life I met some anarchists. And I was just bowled over, because these people represented exactly the things that had gotten me interested in politics as a teenager.

REASON: What were these ideas?

HESS: Emphasis on the individual. The notion of individual responsibility, of cooperation between individuals. You see, I thought I'd been opposed to the federal government. Ha. I didn't even know what opposition was till I met these folks. I mean, they weren't just sort of opposed to what it was doing in terms of the budget—they thought the *whole thing* should go. I always thought the presidency should be abolished, but it had never occurred to me that the whole apparatus was superfluous.

REASON: At that point you broke completely with Republican ideas of militarism and national interest being carried out in Vietnam, for example?

HESS: That was the slowest thing. The hardest thing was to come to grips with Vietnam. I'd been involved in a lot of work regarding it. I'd done congressional briefings on some special bombing operations, done a lot of work on it. I really felt it was quite a good thing.

REASON: Saving the world from communism?

HESS: Well, I really thought it was an invasion from the north. But then the Pentagon Papers, or the precursors to the Pentagon Papers, showed there was no evidence of an invasion. It was just shocking to me; it was shocking to a lot of people. And then I reviewed our foreign policy and discovered it was really an aggressive, not a defensive, foreign policy. From Greece in 1947 on, it had been an offensive foreign policy.

Well, to be involved in any way with a war, even just emotionally, is powerful. It is very hard to break away from it. War, being lunatic in nature, attracts in a lunatic way. It is very powerful.

REASON: Let's skip past some of the post-Vietnam years and talk about today. Can you discuss the origins and development of this Reagan neoconservatism?

HESS: It's not Reagan's at all. I don't know who its authors are precisely, but the outlines are abundantly clear. One of the clearest statements of it so far has been by Felix Rohatyn writing in the *New York Review of Books.* Now you see, here's the confluence that is so important. Felix Rohatyn doesn't write in the *New York Review of Books* as some sort of happen-

"People now understand that the welfare programs are bullshit, but they have not had experience with a huge military operation for awhile."

stance; the *New York Review* has a particular point of view, and when they permit someone on their pages, they're doing it because what's appearing will agree with their general view. So Rohatyn writes about the reindustrialization policy in the *New York Review of Books,* which convinces me that it's a New Right/liberal confluence. No one disagrees with it. Every single presidential candidate in the last election except Ed Clark, the Libertarian, favored it.

REASON: So you wouldn't say the Reagan victory represents some kind of coup d'état by a new breed of conservative politicians?

HESS: Not at all. It's a development. It was happening anyway. Carter would have gotten to it just as surely as they're getting to it. The difference is in emphasis. The Reagan administration is increasing the debt and the national expenditure, not decreasing them, but they're doing it in a popular way. Carter couldn't have increased the budget anymore even if he wanted to—people were just sick and tired of everything he wanted done.

The thing is, people now understand that the welfare programs are bullshit. They've had experience with them. But they have not had experience with a huge military operation for awhile. And I believe there is a feeling generally that our humiliation in Iran and various other places was simply due to not spending enough money on the problem. You see, perfectly reasonable people who can tell you that you can never solve domestic problems by throwing money at them, like Reagan, are eager to tell you that you can solve international problems by throwing money at them. At any rate, what they're doing is expanding the power of the federal government, which I think is the whole idea anyway—to expand power because they want an orderly society.

The crux of the reindustrialization policy is to end the competition and contention between major American institutions. So it envisions a coalition of big business, big labor, and big government.

REASON: In the short term, Karl, will this program succeed?

HESS: Oh, absolutely—like gangbusters. Everybody's gonna love it.

REASON: In the short term the economy will be revitalized?

HESS: Yes, a little bit. It won't seem too bad. If people keep getting more money they really don't care much about infla-

Photograph by Roland Halle

tion, and I think there'll be more money around. The debt will go up, the federal government will be more powerful, and people will be more regimented. The only question is, How long are they going to put up with it? I don't think Americans are a bunch of Germans. I don't think you can do it forever.

REASON: Isn't reindustrialization just corporate fascism?

HESS: It's Italian fascism, which was corporate fascism, sure. It's a shame in this country that fascism has come to be thought of as something in the German mold, when of course that was something entirely different. Italian fascism was very attractive to a lot of American conservatives, including Herbert Hoover. And it's not just idle speculation that this has resurfaced. Felix Rohatyn writes that one of the essential elements of the reindustrialization policy will be to reinstitute the Reconstruction Finance Corporation, which was Hoover's great borrowing from the Italian fascists. And we have in Reagan the perfect person to do it because, you see, he may not even be conscious of this at all. Reagan is a perfectly decent middle-class American who believes the rhetoric. The rhetoric isn't bad—I like the rhetoric, too. But I don't think he studies the legislation very hard.

REASON: What is the role of the poor and the minorities in the Reagan years?

HESS: To be poor. That's what their job has always been, and until they understand that this is literally a job, I don't think they have any chance of reversing the situation. Poor people stop being poor when they lose habits, when they stop thinking poor and start creating wealth. This doesn't mean becoming rich; it just means producing wealth, working.

REASON: If being poor is an occupation, how will the administration, say the reindustrialization agenda, address the concerns of the poor?

HESS: Oh, it won't. The concerns of the poor have never been addressed by anyone. The liberals have simply *said* they were addressing them but kept people poor by putting them on welfare. The Republicans will say, "We're gonna keep you poor, and we won't keep you on welfare." At least that will be the implication. Unfortunately, it won't be the truth. If it were the truth, then we'd have a lot of poor people who would stop being poor.

For instance, the administration's most provocative rhetoric, at this point, is the concept of the urban enterprise zones, in which, apparently, free private enterprise would be unleashed in the poorest areas of the cities. But what it means to the Reagan administration is that there would be certain tax advantages given to entice outside employers to come in and operate. *If* the urban enterprise zone were a flat-out *laissez-faire* zone with no regulations whatsoever—not just taxes, but everything else—then the people who live there could make out fairly well. They would start building an economy. People would start pushcart businesses, storefront vending, who knows what? Maybe a casino. Such a total exemption would be very hopeful, it seems to me. But I'm sure that's not what Reagan envisions. It isn't what he would permit.

REASON: A lot of people are concerned that the environment may be, after four or eight years of Secretary [James] Watt [of the Interior Department] irreparably damaged. Do you agree? What can be done to stop it?

HESS: I don't agree with the "irreparable" part. I think it will be very seriously affected, but happily the planet is tough and resilient. Now, the interesting thing is, I don't think you can clean up the environment the liberal way, either, through regulation. The only way, it seems to me to clean it up is to get back to the concept of individual responsibility, so that people are responsible for their actions; so that when you damage the environment, the people affected by it hold you responsible.

If a factory is dumping corrosive chemicals from its stacks on a community and there was no intervening protection for the corporation, the community would have two choices: it could demand redress from the corporation, boycott it, storm it if its life were in danger, I suppose; or it could choose to let itself be killed for a certain amount of money, which is what a lot of communities would choose to do. And it seems to me that, as awful as a lot of that may sound, there's a better chance for a decent environment that way than under federal intervention. Because with federal intervention what you've had under the so-called environmentalists is the federal government establishing allowable limits of pollution. And those allowable limits keep creeping up, you'll notice, even under Jimmy Carter, and people who are affected by it have very little recourse, if any. Under the Republicans it will simply be another version of that. That is to say, the allowable pollution will just go up, that's all. But it was going up anyway. And yeah, people feel that unless you can go to the federal government you have no way of getting at the guilty party. People are out of the habit of direct action. They've even forgotten the notion of directly suing a corporation. I'm not the greatest fan of the court system, but it occurs to me that a lively suit against a corporation is probably a good deal better than a government regulation anyway.

REASON: You mention direct action—how else would you characterize opposition to such policies?

HESS: I think there's a secessionary movement well under way.

REASON: Who's seceding?

HESS: Oh, lots of people. A lot of good engineers are leaving big corporations and starting little bitty companies that are hard to control. Computer programmers are sort of seceding even while they work. Computer programmers generally are becoming very powerful in this country, and my feeling is they don't have any interest in corporate fascism.

REASON: What about organized opposition?

HESS: Oh, I doubt it.

REASON: The traditional left, or the traditional New Left, is not functioning, and you don't see any prospect for it?

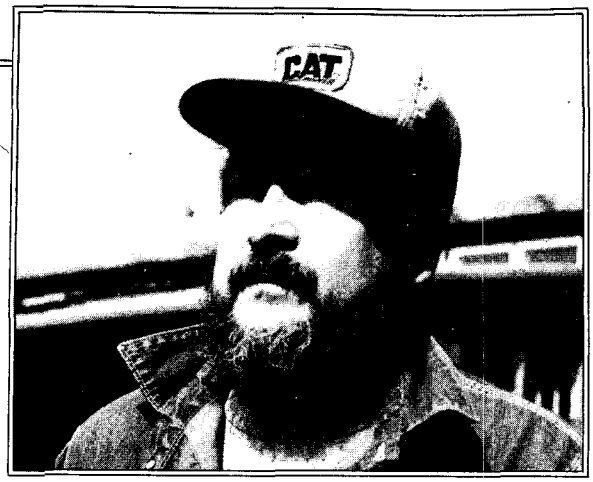
HESS: I don't see what they really have to do. For instance, in the public sense the best they could do is proclaim rights. But even if they did, I don't see that it would make any real change.

REASON: So the genuine opposition that could be of any consequence is developing largely unpublicized, unnoticed in the mass media, and even, you're suggesting, unnoticed by the government?

HESS: The government may notice it, but I think they understand there is not much they can do about it. And the mass media, with very few exceptions, are so far behind the times on any significant social change that you can just—they really don't know anything is happening until it happens to regimes or something like that. What could they find attractive about the fact that there are hundreds of thousands, if not millions, of Americans who are drifting out of the system? First of all, who are these people? They're not important. They're just malcontents. They're not rich.

REASON: If you could get together today with some of your friends from *National Review,* what would you say to them?

HESS: Well, I'd say very little except to make the plaintive point that they're casting their lot with authoritarianism and that, although I can understand that *they* intend to be the



"If Americans had to pay annually the amount of taxes exacted from them by subtle theft, they would refuse to do it. Say no and not do it."

authoritarians this time, I suggest that they would be happier if they cast their lot on the side of freedom. That's all. It seems to me that in the long run the greatest thing you can say about freedom is that you feel better when you're free. It's a more enjoyable state of life than to be either a slave or a master. Now there may be a lot of other high-falutin' reasons, but it's the only one I could talk to people at *NR* about.

REASON: And if you were going to make policy tomorrow, what would you do?

HESS: Say if I could effect legislative changes? I would pick two and only two: I would repeal the withholding tax, and I would enact Mark Hatfield's Neighborhood Powers Act. The Neighborhood Powers Act would enable people to withhold up to 70 percent of their federal tax liability if they gave the money to a community corporation instead. That would be the end of the federal government. On the other hand, if you repeal the federal withholding tax, that would also mean the end of it. If Americans had to pay annually the amount of taxes exacted from them by subtle theft, they would refuse to do it. Simply that, they would refuse. Say no and not do it. And the federal government would collapse. Or collapse back to a very small size. Either of those things would, I believe, start a momentum toward a free society.

REASON: Karl, it's obvious from your work and your words that you have a deep affection for this country. Why?

HESS: Oh, my God, can you imagine anyplace else in the world that would put up with either one of us except here? Just looking around the world, there's no place like it. Comparatively, it's the most free country on the face of the earth. I don't think there's any doubt about it. And I think that applies to blacks living in the ghetto and to people living in Beverly Hills, and it applies to people living in Hamtramck, Michigan. There would be no advantage to being a poor person anyplace else in the world compared to here. I don't think there is any particular advantage to being poor, most of all because of the state of mind involved, but where else? Other places you could conveniently and probably would starve to death.

REASON: It sounds, despite all the problems in the country, that you are essentially optimistic in the long term?

HESS: I think the fascists are idiots, and I don't think the idiots can sustain things very long.

REASON: Karl, thanks a lot.

HESS: Any time. ◻

Panic

(Continued from p. 39)

reserves judgment until other researchers have produced the same results.

In all of the cases detailed above, peer review and replication were side-stepped. Major government decisions were made on the basis of single, unreviewed, unvalidated studies.

After the release of the EPA's Love Canal cytogenetics study, a representative of the New York State Health Department said, "I for one will never believe anything the EPA says or releases again unless it has been peer reviewed." Incidents such as these invariably damage the government's scientific credibility, but that is not their only consequence.

A government announcement of an adverse health effect can never be fully retracted; the public gives more credence to bad news than to good. With regard to the cytogenetics study, Governor Carey's panel stated: "The damage done...is perhaps beyond mending; many of the Love Canal residents have by now become so distrustful of governmental agencies and their scientific reliability that they are unwilling to believe anything except the worst of news about themselves."

Unfortunately, the four incidents described above are not the only examples of premature government actions based on preliminary scientific information. The American public will have to live with the consequences of other mistakes for a long time. For instance, the findings of the original animal study that led to the banning of cyclamate have not been confirmed by later investigators, yet cyclamate remains banned. If the ban were lifted, many consumers would regard this sweetener with understandable suspicion.

The Canadian epidemiology study that related the use of saccharin to an increased risk of bladder cancer in men has been decisively contradicted by later work. Yet saccharin remains controversial.

Another unfortunate side-effect of the publicity surrounding ill-founded preliminary conclusions was reported recently in *Science*. In the summer of 1979, residents of a Memphis, Tennessee, neighborhood were complaining of various health problems. A former local health official made mention of a chemical waste dump in the area, and soon there followed picketing, highly charged meetings, and even calls for a Love Canal-style evacuation. A congressional hearing was convened. The EPA and the Centers for Disease Control moved in to study the problem.

But it turns out that there was no problem—nothing more than background levels of pesticides, no historical or aerial evidence of a source of chemicals, and no data that would support toxic illness or severe health effects. There can be little doubt that this case of a "phantom dump," as *Science* called it, is at least partly a result of the inadequate but well-publicized studies of the Love Canal situation.

The increasing incidence of scientific shortcuts on the part of government agencies is appalling. Peer review, statistical integrity, and replication of important findings are essential to science. When government agencies take shortcuts and needlessly spread panic among the public, science itself loses credibility. It is likely that people will be less and less willing to accept *any* scientific results. The disturbing prospect is a citizenry functioning in an increasingly complex world on the basis of ever more ill-informed choices. ◻

Elizabeth Whelan is executive director of the American Council on Science and Health (ACSH) and the author of Preventing Cancer. *Kathleen Meister is an associate editor of* ACSH News & Views, *from which this article is adapted, by permission of the authors.*

Photograph by Roland Halle

Dollars & Sense

(Continued from p. 43)

such huge and mysterious conduits as Fannie Mae and the Federal Financing Bank. Much of the federally supported or guaranteed debt could charitably be described as unsound, such as advances to bankrupt developers from the now-terminated New Communities Administration, many housing and student loans, the guarantee of New York City securities, and backing of US bank loans to Eastern European governments. Uncle Sam's own record as a lender should not give anyone confidence in the government's capacity to recognize safe and sound banking practices.

The many federal agencies that supposedly provide funds to the mortgage market have no lasting net effect. People simply buy agency securities instead of depositing their money in mortgage-lending institutions; insurance companies and commercial banks likewise hold more agency debt and fewer mortgages.

The government's efforts to divert credit flows to low-income urban housing and minority-owned small business have been very expensive, plagued by scandals and defaults, and remarkably unsuccessful. With taxpayers understandably upset by such uses of their money, in recent years we've seen an attempt to do good deeds with other people's money—namely, with the money that stockholders and depositors have entrusted to banks and thrifts. Regulatory threats and harassment seem ideally suited to such political redistributions of wealth, and they avoid the cumbersome process of subjecting the wealth transfers to close public scrutiny and voter approval.

The Community Reinvestment Act leans toward special favoritism for dwellings and whole neighborhoods, rather than simply requiring the absence of unfair treatment based on irrelevant individual characteristics. The initial benefits from the supposed added provision of mortgage credit would flow to those who could thereby sell their houses at a higher price, quite possibly producing white flight at the expense of those buying the houses and at the expense of poorer people facing a smaller stock of what might otherwise be rental housing. There is, in short, a redistribution of wealth involved that may be quite different from what some would like us to believe.

To put it bluntly, the Community Reinvestment Act can only be viewed as an effort to push financial institutions into foisting more dubious loans on those who can least afford them. One might suppose that banks and thrifts already have enough bad loans and that consumers have more than enough debt. But the Wisconsin school of populism personified by Sen. William Proxmire loves credit and deplores debt, which is one way of ignoring the problem. When runaway expansion of money and credit produces inflation, some members of Congress just figure that people must need a lot more money and credit to pay those soaring prices.

REGULATED FINANCIAL institutions form an island in an expanding sea of unregulated alternatives. Bankers who fight for the status quo are standing still, which just lets the others move ahead that much faster. Regulatory barriers are being repealed by reality—but it is a slow and distorting process.

A minimal reform is to greatly accelerate the faltering abolition of Regulation Q ceilings on interest rates and to repeal the Douglas Amendment to the 1956 Bank Holding Company Act, facilitating the merger of banks and S&Ls across state lines, at least in four or five broad regions. Reciprocal banking agreements between states would help, too.

The new financial technology will require significant long-term commitments of capital. Such investments will simply not be forthcoming in adequate amounts if a large element of regulatory risk is added to the already formidable uncertainties of monetary policy.

Distinctions between depository institutions will disappear, and distinctions between other financial institutions will be further blurred. Finance will become more efficient and competitive, with explicit full-cost pricing of services. Whether regulatory reform plays a lagging or a leading role, competitive and technological forces will initiate the change.

Back in the 1830s, Congress seriously contemplated shutting down the US Patent Office on the grounds that everything had already been invented. We now have the hindsight to say they lacked foresight. But technology always develops differently from the way we suppose it will. Today, we don't even know what will be considered valuable natural resources in the future, any more than our grandparents knew what we would do with uranium. One thing we do know is that man's ingenuity is awesome and that scientific progress is accelerating at a rapid pace as one invention leads to many uses that are, in turn, multiplied many times again.

We also know, from history and experience, that attempts to delay the sometimes frightening onrush of technology only succeed in diverting new techniques to other areas, leaving obsolescence as the price of obstruction. We must never forget that we operate in a highly competitive global marketplace and that capital, labor, and money can and do move to places that are most conducive to doing business. If some states or nations promote more-efficient methods of providing financial services, then their financial sectors, and the activities they finance, will come out ahead in the competition for capital.

The power of the marketplace can and will undermine financial regulations. The process would be far more orderly and efficient if the regulations were simply discarded. ◻

Contributing Editor Alan Reynolds is vice-president of Polyconomics, Inc.

COMING ATTRACTIONS

Aqueous Excesses: Why is California wasting its water? And who's getting soaked in the process? Award-winning journalist William Tucker wades through the swampland of California water politics.

Mayday, Mayday! Midair collisions—the horror of every air traveler. So why did the FAA shelve a collision-avoidance system that was available six years ago in favor of its own multi-billion-dollar system—which won't be in full operation for another 10 years?

Special Issue: What are the investment experts saying about real estate, stocks, IRAs, and other money matters? Doug Casey, George Gilder, Franz Pick, Mark Skousen, and other notables point out some profitable possibilities for the 1980s in REASON's annual financial issue.

Plus Murray Rothbard's Viewpoint, Steve Beckner's Money, Durk Pearson and Sandy Shaw on food preservatives, and all the rest of REASON's regular features and departments.

VIEWPOINT

Cooperation and Coercion

BY TOM BETHELL

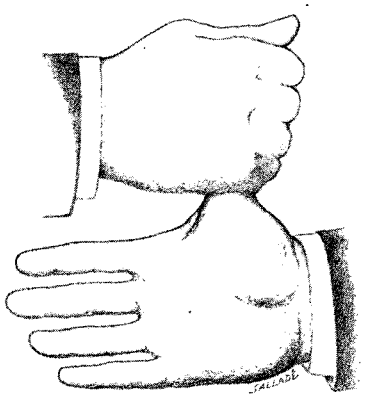
Within the next few months we'll be hearing a good deal about various Democratic alternatives to "Reaganomics." Since Reagan's main idea is to return more economic decisionmaking to the people, it is easy to see that an "alternative" to Reaganomics is likely to be antimarket, embodying quasi-socialist proposals—not so labeled, but rather camouflaged in the friendly rhetoric of "cooperation."

Some of this material has already begun to seep out of the various outposts of latter-day liberalism: a cover-story in *Esquire,* for example, regaling us with the thoughts of Sens. Bill Bradley and Gary Hart—"cooperative regionalism" being a sample. Sen. Paul Tsongas's book, *The Road from Here,* gives us further clues. In addition, Felix Rohatyn, the chairman of New York's Municipal Assistance Corporation, has published endless articles in the *New York Review of Books.* They are worth a glance, if only because it is rumored that Rohatyn would like to be secretary of the Treasury in a Democratic administration.

Rohatyn is here to tell us that we must adopt "an industrial policy committed to restructuring basic U.S. industries." He has in mind steel, autos, rubber, glass, and such. Such restructuring, of course, is already taking place as a result of market forces. His use of the word "policy" tells us that he would replace market forces with political force. (Remember how we didn't have an "energy policy" until the Department of Energy was in place?)

Rohatyn reassures us that he is not in favor of "lemon socialism." Nevertheless, he believes that the Chrysler bailout was wrong in detail, not in principle. What we really need, apparently, is a new Reconstruction Finance Corporation (RFC), which will "provide capital for industries that have a sound case for it." Taxpayers' money would be invested "where the RFC deems this in the public interest."

Which supplicant firms would be favored? "The RFC staff would have to analyze [a firm's] chances to survive on a realistic basis." Equity capital would be provided, and "in exchange" unions "would be asked" to make concessions, and some management decisionmaking would be transferred to the RFC. Rohatyn does not explain how RFC staffers will achieve such far-sightedness, nor does he explain why lenders in the marketplace are incapable of similar wisdom. His is really a proposal to transfer power and decisionmaking to an intelligentsia. (One is reminded that socialist President



François Mitterrand of France said in a recent interview: "The nation must entrust its future to the most intelligent in order for society to succeed." Remember when socialism was legitimized by "the proletariat"?)

This RFC should be run "outside of politics," Rohatyn adds ominously. That is, the people should be prevented from influencing its decisions. Freedom, admittedly, "would be abridged," and "a temporary austerity will have to be accepted." In fact, a great many things will "have to be" in the-world-according-to-Rohatyn. Jobs "will have to be" brought to the people. Some employment "will have to be" subsidized. A new tax "has to be" imposed, and a "tough incomes policy" is promised, too. Protest is likely to be inaudible "outside of politics," of course. The Kremlin is also run outside of politics.

Similar themes of alleged "cooperation" between business and government have been sounded by other Democrats. "We must make certain that business, labor and government cooperate and agree on specific goals," said Walter Mondale in a *New York Times Magazine* article. Who is "we" here, and who decides the "goals" exactly? "Government and industry must be in harness," Tsongas wrote in his book. Yes, but who cracks the whip?

The new Democratic motif of "cooperation" seems intended to disguise the reality that business will in fact be ruled by government. Governments, after all, have coercive powers. Businesses must use persuasion to sell their products.

Of course, many businesses are happy to surrender to the will of government, Chrysler being an example. And government is only too willing to bow to some private-sector interests in order to enlarge its constituencies. For these reasons the "cooperation" of business and government will inevitably degenerate into an extension of the welfare state into the corporate world. Nothing could be more destructive of entrepreneurship and dynamism.

Furthermore, grandiose partnerships-in-enterprise never work out, because by the time the information needed to draft and implement the plan is accumulated by the planners, the people across the land want something else and are probably already making it. The world moves on and won't await the cogitations of corporate and government leaders.

The great delusion of leadership elites is that it is possible to accumulate all useful information about an economy into one great shining nugget of data and then pass it around a boardroom table, refining it and polishing it up in the process. It can't be done. Rohatyn himself has admitted that he learned as MAC chairman that "when we know all the facts, it is often too late to act."

"Industrial policy" really amounts to central planning in disguise. And central planning doesn't work because the central plan must inevitably run afoul of all the myriad small plans of individuals. So if the central plan is to be implemented, individuals "have to be" prevented from carrying out their plans—whether they like it or not. That is why planned economies always turn into police states. Beware, then, when you hear the word *cooperation* out of the mouths of politicians. What they mean is *coercion.*

Tom Bethell holds the DeWitt Wallace Chair in Communications at the American Enterprise Institute. He is a Washington editor of the American Spectator.

Illustration by Susan Sallade

Ideology's Gone Packing

BY ROBERT JAMES LEE

The White House has undergone an almost unnoticed transition that is likely to transform national policy profoundly. On March 1, Martin Anderson, President Reagan's domestic policy advisor, returned to the Hoover Institution at Stanford University and was replaced by Edwin Harper, formerly the Deputy Director of the Office of Management and Budget (OMB).

Anderson's departure is troubling for several reasons. The first is that the final link between the highly ideological Reagan presidential campaigns of 1976 and 1980 and the Reagan presidency has been severed. Political advisor Lyn Nofziger and national security advisor Richard Allen, the two conservative ideologues who also had helped guide both of Reagan's presidential bids, left in January; there is now no senior Reagan presidential aide who helped shape Reagan's philosophical development over the years.

More important, Anderson's resignation removes the one important Reagan official who held a consistent philosophical commitment to individual freedom, economic liberty, and noncoercion. The upper levels of the White House are now ideologically barren: Ed Meese and Mike Deaver submerge their personal philosophies; Jim Baker possesses a personal ideology of pragmatism; and William Clark focuses on foreign policy.

Anderson has been the aide most willing to force the president and his officials to confront fundamental philosophical principles when making policy decisions. Unfortunately, it seems that Harper shares neither Anderson's ideological concerns nor his intensity of conviction. Those who know Harper say that he is a competent manager but has the mind-set of a typical conservative businessman. He seems less likely to challenge the reigning pragmatic orthodoxy, oppose business interests, guard campaign commitments, or heavily involve himself in noneconomic issues such as the draft.

Indeed, the magnitude of the loss caused by Anderson's departure can be better measured by surveying the issues in which he's reported to have played a major role:

Draft registration. Anderson led a lonely fight against the national security establishment to eliminate draft registration. Though losing in the end, he was able to engineer the December 1981 hold placed on prosecutions and to gain administration opposition to a plan to give the Selective Service System access to Social Security and IRS files.

National ID card. Attorney General Smith and some White House aides proposed national ID cards to help enforce the immigration laws. Anderson—and his wife, Annelise, an associate program director at OMB—vigorously and unsuccessfully opposed this step towards Orwell's 1984.

Tax increases. Anderson was the only senior administration official to oppose the recent proposal for tax increases. His trenchant critique of the so-called sin taxes was a major factor in derailing them.

Japanese auto imports. Anderson joined Reagan's other economic advisors in opposing any auto import quotas. He lost, but the quotas imposed were less stringent than originally proposed.

Law of the Sea. The draft Law of the Sea treaty has been in the making for a decade and would sacrifice American philosophical, economic, and national security interests, while ratifying the Third World's demands for a redistributionist New International Economic Order. Anderson took the lead in preventing the US government from signing the treaty last year and in having the US delegation demand substantial changes this year.

Defense budget. Last fall, Anderson joined most of Reagan's other advisors in proposing reductions in the growth rate of the defense budget. Though committed to a strong defense position, Anderson was concerned with the rate money was being showered on the Pentagon.

Natural-gas deregulation. Anderson spent the past year pushing support for legislation to deregulate natural gas. Lack of enthusiasm on the part of congressional Republicans has apparently left the decison in limbo since August.

Export of Alaskan crude oil. Despite maritime union pressure and doubtful legislative chances, Anderson led the fight to eliminate the autarchic ban on the export of Alaskan crude oil. Unfortunately, it looks like no decision will translate into an adverse decision.

Coal slurry pipeline. Anderson stood virtually alone in opposing proposals to grant federal eminent domain authority to coal slurry pipeline companies. Reagan went along with Anderson's arguments against using eminent domain power and overruling state governments.

Anderson's departure leaves a philosophical void on these types of issues that Harper is not likely to fill. The void will be enlarged by the concurrent, though unrelated, departure of John McClaughry, a senior policy advisor in Anderson's office. McClaughry, formerly head of the Institute for Liberty and Community, has been an active libertarian and decentralist and may run for the US Senate.

Moreover, some other of Anderson's staff may also leave. For example, insiders say that Anderson's chief personal aides, who reportedly share his individualistic philosophy, are likely to depart in time as well.

Finally, Anderson's departure will do more than just eliminate his nagging presence; it will dampen the nagging of others. However many philosophically sound people remain in the Office of Policy Development, Harper is likely to reorganize the office to emphasize managerial efficiency rather than ideological purity. Paper, not philosophy, will prevail.

A similar impact will be felt by other, independent, Reagan officials as well. People such as OMB Director David Stockman, Council of Economic Advisers Chairman Murray Wiedenbaum, and Treasury Secretary Donald Regan generally take the correct policy positions. But they will now lack reinforcement by the one long-time aide who linked and emphasized campaign and philosophical commitments.

Even Anderson's presence did not stop Reagan from making a number of disheartening decisions. But his absence almost guarantees that the administration will become more devoted to pragmatism and compromise and less to principle and challenge. And as it does so, our prospects for increased liberty will decline.

Robert James Lee is a Washington attorney.

Conflicting Medical Worldviews

BY SANDY SHAW AND DURK PEARSON

Many people, including some doctors, believe that medical knowledge, drugs, and other technology should be used only for the amelioration or prevention of disease. This is also the position of the Food and Drug Administration (FDA). Medically improving the normal human condition is anathema to these people—a good example is the attitude that many doctors had toward plastic surgery when it first became available. New drugs (or new applications for old drugs) that are available to many of us will widen this already serious schism in medical philosophy. These include extant drugs that increase normal human intelligence, slow aging processes, enhance sex and other sensory experiences, and give us greater control over our body weight and emotional states, to give just a few examples.

Nothing is perfectly safe. This means that we must assess the possible benefits *and* risks of the use of any substance, whether synthetic or natural, drug or nutrient. Risks include discomfort or even physiological damage from side effects, time and money invested, and forgone opportunities. In some people, for example, vitamin E use will initially produce a temporary rise in blood pressure, which could be hazardous for some heart disease patients.

Some doctors think that *they* should decide *for you* what level of risk is acceptable *to you* for a particular benefit. This is the source of a controversy that extends far beyond the medical sphere. In this column, we write about scientific reports on drugs and nutrients we use and describe our experiences with them, but just because we have found a particular benefit/risk ratio acceptable does not mean that you will. The optimal doses for us will differ from yours. You must make an assessment based upon your own values and physiology.

It is not possible in a short column to include a comprehensive description of all possible risks that may be associated with a particular drug or nutrient. Whole books have been written on the subject. No one should embark upon a course of taking substances without investigating carefully, preferably by referring to primary scientific literature. The *Physician's Desk Reference* is very useful (and was recently the third-best-selling hardback book in the country). It is important to have regular clinical laboratory tests for basic functions, such as those of blood, liver, and kidneys. You should consult with your physician (if you're not satisfied with yours, get another), who can order tests and prescribe drugs.

In medicine today there is a large gray area of illicit (not FDA-licensed) but not illegal technology. A good example is that of the gout medicine Anturane®, which was recently found in a human clinical trial to reduce by 74 percent the risk in males of death from a second or subsequent heart attack. The FDA has not approved Anturane® for this purpose, yet prescription drug usage surveys have shown that over 90 percent of new prescriptions written for Anturane® are for heart patients, not for gout victims.

It is perfectly legal for a doctor to prescribe a drug (except for "controlled substances," such as amphetamines and narcotics) for any purpose he chooses, whether or not the drug is approved by the FDA for that purpose. Since the FDA approves drugs only for the prevention or treatment of specific diseases, finding a doctor who will prescribe drugs for nonapproved uses is very helpful to anyone wishing to experiment with approved drugs that may have wider utility than supposed by the FDA or that may even improve a normal human function.

We now see offered a wide range of nutrients in health food and vitamin stores. The public buys an immense number of health-oriented books and periodicals that purport to advise them on the use of these substances. Much of the advice found in popular books and magazines is incorrect. The point we want to make here, however, is that it is possible to sell nutrients without even making claims for them because books are making such strong claims for some of them. Although the Proxmire vitamin bill of the early 1970s prevents the FDA from regulating the sale of nutrients (unless they can prove them to be hazardous), including vitamins A and D, the FDA still prohibits purveyors from making health claims on the label. As we have all seen, many small firms are making claims for their nutrient products in advertising (other than the label) and are becoming ever more bold in doing so.

Even unapproved substances such as thymosin (a thymus hormone showing great promise as an anticancer drug, as well as being a powerful immune-system stimulant) may be legally manufactured and sold *intra*state. When people catch on to this, there will be even more freedom of choice in the medical marketplace.

Medical organizations are changing, too. The American Medical Association once claimed to represent essentially all American doctors, with about 90 percent joining. A majority of new doctors now choose *not* to join the AMA. Where the medical profession once spoke with nearly a single voice, that is no longer true.

Medical philosophy used to be a monopoly of doctors and regulators who were able to impose their values on everybody else at the point of a policeman's gun. This is changing. The availability of more and more options in medicine—not just for the prevention and cure of disease, but for the improvement of normal human function—means that personal medical decisions will become ever more frequent and complex. The key to evaluating these opportunities rationally is good information, particularly primary scientific literature, and inexpensive literature searches, such as MEDLARS, offered by many large medical school and university life-science libraries.

In the final analysis, the central moral and philosophical question is *freedom of choice.* Do you choose your own combination of risks and benefits based on personal values, or does some authority choose for you and enforce that choice with the apparatus of police, courts, guns, and prisons? Whose life is it, anyway?

We invite questions of general interest from our readers. Send your query along to REASON Health & Welfare, Box 40105, Santa Barbara, CA 93103. (A limited number of reader questions can be answered in print; personal replies cannot be made.)

A list of scientific literature on this topic is available through REASON. Send a stamped, self-addressed envelope and ask for H&W references, May.

Sandy Shaw and Durk Pearson are consulting scientists and authors.

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Let the Word Go Forth

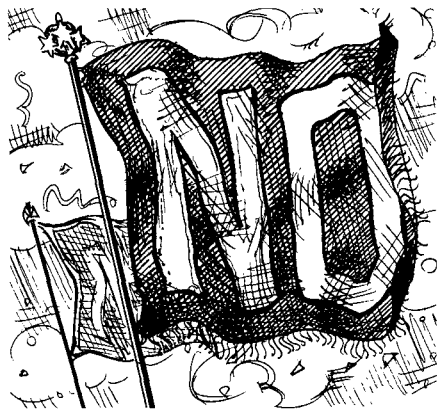
BY TIMOTHY CONDON

A gigantic national struggle should by now be upon us. As I write this, the political storm clouds are gathering. We're probably reading about the battle daily now in the newspapers. That fundamental struggle—between those who would hold the line on taxes and those who want to raise taxes to reduce budget deficits—has to do with the most basic question of all: How much money is going to be forcibly taken from the people?

Thus it is that we find Mr. Ronald Reagan standing virtually alone in the universe of power and manipulation in Washington, D.C., as one who flatly states, "No new taxes." Now this isn't actually correct—there will be new taxes, and the tax burden will increase every year into the foreseeable future. But compared to what others would do, including the born-again budget balancers who just this year happened to notice the last 20 years of conservative rhetoric about balanced budgets, Reagan's stand on refusing to raise taxes is outrageously radical.

What makes the president's position all the more unusual is that he stands almost alone among the leaders in his administration and his party. As early as October 1981, GOP Senate Majority Leader Howard Baker (R-Tenn.), House Leader Bob Michel (R-Ill.), and Senate Finance Chairman Bob Dole (R-Kan.) were talking about increasing taxes $50-$70 billion "to cut budget deficits." Then, by February 1982 Reagan's Chief of Staff James Baker and Budget Director David Stockman became "convinced" that higher taxes were needed, that the promise that Reagan was virtually elected upon would have to be scrapped. The rest of the team soon joined the chorus, baying for more taxation.

The Old Man was almost convinced (some reports had it that he *did* agree). But by the time of the president's State of the Union speech in late January, Reagan had decided to take his splendid stand, saying, "Raising taxes will not balance the budget. It will encourage more government spending." And he is exactly right. The president might have added that, because taxes are already so outrageously high, any increase in the tax burden might actually *decrease* government revenue by forcing people to shrug and give up working any more than they absolutely have to. Which would be fine, except we would all then pay the price of a further-eroding standard of living.



The seminal point is this: Are we going to hold the line on taxes as much as possible and damn the deficits, or will we increase taxes for the announced purpose of holding the deficits down and thus "encourage more government spending"? Free-market economist and Nobel Prize winner Milton Friedman put it succinctly, as always: "The crucial issue is whether we are getting our money's worth for the vast sums government is spending or obligating us to spend. . . . President Reagan's emphasis on cutting government spending is far more important than his emphasis on balancing the budget in 1984 and why it deserves our enthusiastic support."

But the battle is just beginning. According to Senator Dole in early February, if the economy hadn't improved by about April, Reagan would be assaulted by a group of congressional Republicans trying to get him to both trim the defense budget *and* raise taxes. With his highest aides on the opposition's side, the president stands alone.

All of which presents something of a dilemma for those convinced of the necessity of cutting back government in the interests of enhancing individual liberty. After all, the National Taxpayers Union has been pushing a constitutional amendment to force a balanced budget for years now. They're within two or three states' approval of forcing a constitutional convention to propose just such an amendment. On the other hand, increased taxation (1) causes inflation both by encouraging increased government spending and by generally raising prices, (2) emboldens the government and the bureaucrats and special interests who exist on its largesse, and (3) acts to further impoverish the people.

President Reagan has opted squarely for the historically valid action urged by supply-side economics (see, for example, Bruce Bartlett's "Supply-Side Success Stories," REASON, July 1981). He is going to increase spending while simultaneously putting through the income tax cut in hope that the productive capacity of the American people will be set free. Since the tax cuts only decrease the rate of increase, that hope seems foolish. What *should* be undertaken is a drastic and sharp arrest of the federal spending spree. Much more is needed than the timid budget "cuts" up to this point. Despite the media propaganda about a "revolution" in "slashing the budget," federal spending—and taxing—are slated to continue to explode for at least the next few years. They're just exploding at a slightly decreasing rate.

Still, the president has opted for more spending, period. What about deficits and inflation? At this point, as George Gilder points out in his extraordinary book *Wealth and Poverty*, "there is no practicable antiinflationary program except Lafferite economics and supply-side stimuli." The two traditional alternatives—sitting on the money supply and jacking up taxes—will both serve to crush productivity in the private sector...and further impoverish the American people.

So you want to save taxes? Well then, go out into your community, in your neighborhood and town and workplace, among the toilers and leaders all about you, in the newspapers and on the radio and TV stations, and let the word go forth. Let it be said loudly, repeatedly, and clearly: *No More Taxes.* Enough. Let there be an end to the ever-increasing plunder. We cannot stand to be bled any longer. The clamor for more taxes is going to increase; let us meet it: No more taxes, no more taxes, no more taxes...

Tim Condon is an attorney and a tax specialist practicing in Florida.

Illustration by Matthew Burbott

Core of the Corp. Corps

BY PATRICK COX

"Tell me," Carl Olson challenges, "how else can you reach almost three million people with an ideological statement for the cost of a postage stamp." It can be done, he notes, by a stockholder in AT&T simply by sending a proxy resolution to the company. AT&T will then include the resolution among others voted on annually by all the stockholders. If you own a share of stock, you own part of the company and are entitled by law to bring resolutions before the company's other stockholders.

Some people with a cause have been doing it for years. Proxy resolutions have been used to press for boycotts of non-union companies and trade with South Africa. They are used to oppose nuclear energy, encourage socialist revolutions, and publicize a variety of liberal concerns. Olson is using the same tool but for decidedly different ends.

A conservative, Olson is passionately concerned about freedom in the marketplace and a little uncomfortable about personal freedoms. But in his rhetoric, he sounds much like the liberals who seek to influence corporate behavior through stockholder voting. Liberal economists have been complaining for years that corporate management has personal goals that do not always coincide with the best interests of the people. Olson agrees, but while leftists sloganize "power to the people," Olson says, "power to the owners." "The larger a corporation gets," he explains, "the harder it is to coordinate control by the owners. It's in the best interest of the whole economic free-enterprise system to ensure that the property owner has as much influence as possible over that corporation."

Eight years ago Carl Olson formulated three vehicles to advance free-market ideas through stockholder activism. Stockholders Against the Government Burden is the umbrella for a variety of actions aimed at furthering voluntary corporate disclosure of the costs imposed by the government. One example of his success in that area: General Motors adopted a policy of publicizing how much the government costs the company in taxes, regulatory requirements, and the unavoidable red tape. Olson's efforts also led to the disclosure by GM that it collects $5 billion a year in various and sundry consumer and employee taxes that are paid directly to government.

Olson or one of the many stockholders around the country who work with him

CARL OLSON

is always introducing proxy resolutions to make the government burden more evident. Even if the resolutions don't pass, he notes, "they are terrific consciousness raisers." He figures that, on average, corporations pay over $1.50 to the government for every $1.00 distributed to stockholders. "We just try to hold that information before the stockholders and say, 'Guess where all the money is going, dummy.' "

The second organization, the Stockholder Sovereignty Society (SSS), works to increase owners' control of corporations. Olson complains that management has stacked the deck in its own favor and succeeded in making most corporate elections mere perfunctory ratifications. Olson has challenged the practice of counting all abstentions as votes in favor of management positions, of marking ballots with management's suggested vote, and of management's control of employee pension funds. Olson also works to make the minutes of annual board meetings available to stockholders. The SSS has taken on US savings bonds—a poor investment marketed by the government as a good one and often promoted to employees via company payroll deduction plans.

The third organization is Stockholders for World Freedom (SWF). The main thrust of this group is opposition to trade with the USSR and other Communist countries. He and those who help him are particularly outraged that US taxpayers are subsidizing trade with those countries through government-guaranteed loans. They have introduced proxy resolutions urging corporate boycotts of Communist dictatorships and disclosure of corporate contributions to organizations and individuals who are enemies of the free-market system.

Carl Olson did his undergraduate work in economics and engineering and then went on to get a masters degree in business journalism from Columbia University. His ideological roots are the works of the novelist-philosopher Ayn Rand and the Goldwater campaign. Today, he is an accountant in the Los Angeles area.

The media love his trouble making. In particular, he and his group gained attention last year at Occidental Petroleum's annual meeting. Besides the usual proxy resolutions, they introduced a measure that would change the date of the annual meeting to any day other than Armand Hammer's birthday.

Even those who may not buy everything that Olson is trying to do must admit that he is using voluntary, non-government methods to accomplish his ends, and his innovative techniques hold great promise to those interested in educating the public as they change the system. One of Olson's tactics is to introduce resolutions to corporate stockholders supporting tax-reduction initiatives and urging corporate donations to antitax forces.

If only one stockholder from every corporation in America filed a strong ideological statement for consideration by the company stockholders, approximately 30 million people would get the message delivered to their doors. Olson says, "There's no limit to the number of issues that can be brought up at an annual meeting. What I've done is to encourage as many stockholders as possible to sponsor resolutions. I provide a little bit of help in pointing out how easy it is."

Carl Olson can be reached at P.O. Box 140, Woodland Hills, CA 91365.

Patrick Cox is a free-lance writer.

arts & letters

MOVIES

Reviewed by John Hospers

Missing

When the regime of Salvador Allende was overthrown in Chile, it began with a strike by truck drivers and spread into a general strike of workers who could no longer endure the arrests of dissidents, massive unemployment, and an inflation of 1,000 percent. A military coup took over, but the rebellion against Allende started from the bottom, not from the top.

Sissy Spacek, Jack Lemmon in Missing*: a nation's havoc, a family's grief*

This, however, is not the picture of Chile we get from Costa-Gavras's latest film *Missing,* in which the entire fault is placed on the military rulers headed by Pinochet and their alleged US accomplices. The film is indeed based on a factual incident recorded in Thomas Hauser's book *The Execution of Charles Horman,* and for all we know the incidents in the film may be true, although American involvement in the coup has been denied in a paper by the State Department in response to the allegations in the film. It is the subject selected rather than the treatment of it that tips us off on the director's sympathies.

Costa-Gavras is still best known for his thriller *Z,* an attack on the fascist military junta in Greece. At that time Costa-Gavras had no criticisms of the Soviets, who were of course meticulous in their respect for human rights. Yet he changed his mind about this in *The Confession,* concerning the Prague trials, which alienated the party faithful. His anti-American bent was obvious in *State of Siege,* concerning American involvement in Uruguay, and it comes out with equal virulence in *Missing.*

The film presents enough horrors to fill a dozen movies. Yet one cannot help observe that when the principals (Jack Lemmon, Sissy Spacek) are taken through hospitals and morgues to find the missing son, at least the officials do permit them to examine these places, something which would be unheard of in the Soviet Union, where one would look in vain for any person who had been imprisoned or sent to remote labor camps. One would not even be permitted inside the country to initiate such a search.

Whatever his politics, Costa-Gavras is an absorbing storyteller. Though none of his films can approach *Z* for electrifying suspense, *Missing* is first and foremost a human drama in which the havoc wrought on a nation is concretized in the grief of one family, and the revolution is used largely as a backdrop to their personal tragedy.

Heartland

From the moment that *Heartland* starts rolling, the viewer's breath is taken away by the gorgeous scenery (Wyoming, 1910)—like *Days of Heaven,* except that this is the "real thing": the cycle of the seasons, the animals on the range, the ranch house tiny as an ant under the huge bowl of the sky, the authentic articles of the period down to the kitchen cutlery. Beauty and authenticity are the first impressions, which endure and are enhanced throughout the picture, but even so they are not the principal ones.

The overpowering impression left by the film is that of the tremendous hardship of the rancher's life. If the winter is severe, the cattle and horses die of cold or hunger. (The sound of hungry cattle and the spectacle of starving horses is too much for some viewers.) If a child is born, there is no doctor within a hundred miles, and precious little medicine. If the cow won't calve properly, there is no veterinarian to be called in. (The scene of the birth of a calf is both harrowing and inspiring.) If you want almost anything at all, you have to produce it yourself. The phoniness of most other Westerns is blatant by comparison.

The beauties of nature, which strike us so strongly in this film, were something the settlers did not have the luxury to enjoy; it is we who have that luxury as we drive through the region on modern highways en route to plush motels. The film shows us dramatically how little of a safety net—a safety net provided by the rise of technology—existed (throughout all history, and even in Wyoming in 1910) between the settlers and death from the elements. The whole film is a kind of vivid footnote to the descriptions of the interdependence of mankind in the products of labor such as are given in the opening pages of Henry Weaver's *The Mainspring of Human Progress* and Rose Wilder Lane's *The Discovery of Freedom.* The film emblazons on our consciousness what human life was like prior to the conveniences we take for granted and consider necessities; it makes us wonder whether, if the cord that ties us to the mainspring of human progress were to be cut, we could survive as heroically as they did, or indeed whether we could survive at all.

Road Games

Australia does it again. *Road Games,* starring two American actors, Stacey Keach and Jamie Lee Curtis, never pretends to be anything more than a modest suspense film. But what it undertakes to do, it does very well. A trucker sees someone burying a body in the Australian outback and, due to a curious but plausible combination of circumstances, finds himself accused of the crime. The story is credible and suspenseful. As a fringe benefit, it provides us with fascinating glimpses of the terrain of western Australia along the national highway leading to Perth. Better a clear small gem than a large cloudy one.

John Hospers is a professor of philosophy at the University of Southern California. His book Understanding the Arts *was recently published by Prentice-Hall.*

BOOKS

The Heart of the Matter

Sex without Love.
By Russell Vannoy.
Buffalo, N.Y.: Prometheus Books. 1980.
226 pp. $14.95/$7.95.

Reviewed by David L. Norton and Mary Kille Norton

This wolf in sheep's clothing is subtitled "A Philosophical Exploration" but is in fact a manifesto. Consider the following passage from late in the book.

If my thesis that erotic love is essentially self-interested is correct, it is going to damage seriously the claim that sex with a lover is the supreme experience. Part of the sexual joy lovers experience derives from the feeling that the partner is truly an altruistic person who would be willing to give his all to the act even if he felt he weren't getting very much in return. But if my thesis about the motives of lovers is correct, this joy is based on an illusion.

Lovers, for example, would be on the alert to see that they are getting as much as they are giving, or hopefully, to get more than they give (as with the millions of husbands who leave their wives orgasmically and otherwise unfulfilled). . . . Furthermore, lovers commonly consider the beloved obligated to satisfy them whenever they wish, even if the beloved isn't in the mood for sex at all.

On the other hand, a generous, considerate non-lover is capable of performing a sex act without engaging in violent quarrels if he fails to be satisfied. Nor will such a generous person so readily threaten to abandon his partner if he fails to be pleased sexually with his partner's performance. Nor will he think that it is his partner's obligation to please him whenever he wishes.

Vannoy has two basic theses to urge upon the reader. The first is that sex without love can be "just as fulfilling" as sex with love and "may be even more so." The second is that erotic love (sexual love, romantic love) is an intrinsically contradictory phenomenon that introduces contradiction and hypocrisy into the lives of those who experience it.

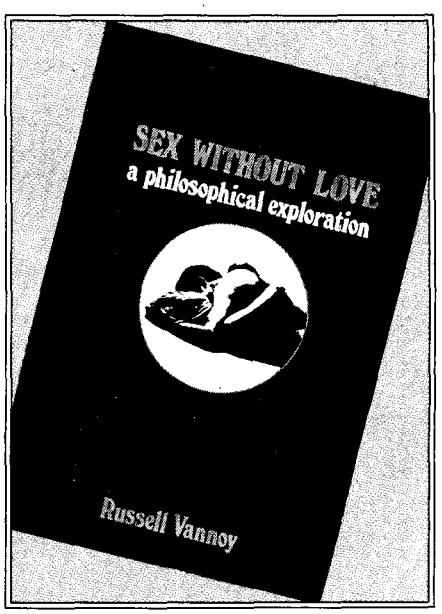
His style of presentation is a fast-paced thrust and parry of thesis, counterexamples, counterargument, and new thesis. The trouble is that Vannoy's determination to promulgate his ideology has a corrosive effect throughout upon the thrust and parry of the purported "exploration." He mischaracterizes views alternative to his own, ferrets out pathology everywhere, manages to seriously misunderstand most of the philosophical classics on sex and love, and slips shoddy arguments for his own theses past the reader. Perhaps most seriously of all, he shows none of the intellectual empathy and generosity that would enable him to discern merit in positions different from his own and that a true "philosophical exploration" requires.

Returning to the opening citation: On what ground does Vannoy attribute to nonloving sex the generosity he denies to love? Do lovers typically engage in violent quarrels and threaten to abandon their partners when they are not sexually satisfied? Since sex is the focus of the nonloving sexual relationship, is it to be expected that nonlovers will surpass lovers in the patience with which they uncomplainingly bear their lack of sexual satisfaction? Is it true that "part of the joy" of sex with love is the belief that one's partner is a "truly altruistic person" who doesn't mind getting little in return? Won't his not getting much in return be of deep concern to the person who loves him? Do we expect "altruism" of persons who love us? Altruism means self-sacrifice, and if we love the person in return, would we not be asking for the sacrifice of what we regard as infinitely precious? And do lovers "commonly consider the beloved obligated to satisfy them whenever they wish," in disregard of the feelings of the beloved? We do not know what concrete examples of love the author may be acquainted with, but he seems to have peered at them through a reversed binocular and often confused love with its common pseudomorphs.

Judging by the frequency with which he repeats it, Vannoy's favorite argument for the superiority of sex without love is that it is "not within the power of a penis or vagina to communicate love at all." On this basis it becomes clear how he can say that "sex without love can be just as fulfilling an experience as sex with love; indeed it may be even more so." Evidently he means: just as fulfilling to disconnected penises and vaginas. In the same vein, one might equally say that letters on a page cannot communicate feelings, nor can the hand that clasps ours, or the arm about our shoulders.

But penises and vaginas are connected to bodies, and bodies belong to persons, hence penises and vaginas, like words, hands, and arms, can be expressive of persons. If by "fulfilling," then, we mean fulfilling of the persons to whom penises and vaginas are connected, it is clear that relations involving more than penises and vaginas can be more fulfilling (granted that they can sometimes be less), for the simple reason that there is more to fulfill.

Vannoy's carelessness with classical sources on love is pervasive, but an example must suffice. From the *Lysis*, he attributes to Plato the "dour conclusion . . . that there is no philosophical basis on which to justify any form of friendship." But the conclusion is the product of Vannoy's misreading. In the *Lysis* Socrates argues, to be sure, that



neither likeness nor difference between two persons affords the basis of friendship. But he then shows that the basis is both likeness and difference together, a relationship he terms the "congeniality of excellences." Friends must be alike in pursuing the good but different in the aspects of the good that each pursues. In this way they share the most important thing in common, yet each offers to the other something of worth that the other cannot self-provide.

Had Vannoy understood this conception of friendship, it would be sure to displease him, for he takes the inwardly secure individual to be the wholly self-sufficient individual, and from this standpoint all forms of love appear to him as manifestations of insufficiency and insecurity. We suggest, rather, that the secure individual can give of himself without fear of self-depletion and can

receive from others what they have to contribute without experiencing anxiety over an erosion of self-sufficiency.

But it is to prove that erotic love is intrinsically contradictory that Vannoy unlimbers his heavy artillery. He identifies six contradictions under the headings "Ecstasy vs. Endurance," "Altruism vs. Self-Interest," "Choice vs. Emotion," "Security vs. Insecurity," "Oneness vs. Twoness," and "Opposites Attract vs. Like Attracts Like." In general, his tactic is to argue that love cannot be represented by one term or the other in each pair, but neither can it combine both, for the terms in each pair are mutually exclusive. But the fallacy throughout is that of defining the terms of each pair in mutually exclusive fashion—the fallacy of intellectual abstractionism. It is true that we can conceive of the terms in mutually exclusive fashion, but by so doing our thought ceases to be representative of human experience.

Consider "Ecstasy vs. Endurance." It is true that ecstasy does not endure (and it is also fortunate, for at the same time that it lofts us to the heights, it unfits us for much that living requires); but ecstasy can be recurrent, and Vannoy does nothing to show that an enduring relationship cannot be a foundation for recurrent occasions of ecstasy. That it may be the best foundation is suggested by an analogue drawn from creative writing. By all accounts such writing calls for both "inspiration" and "perspiration." Typically the novice believes he can write only in moments of inspiration. The experienced writer knows that it is his sustained daily effort that provides the fertile ground for recurrent inspiration.

Or consider "Choice vs. Emotion." Vannoy says, "A further contradiction to which erotic love is subject is the conflict between one's demands that one be chosen for what one is in some kind of rational way, and also that such love must include some degree of emotional involvement. But having an emotion does not seem to be a matter of choice at all." To make short work of this artificial bifurcation, consider the following example. Suppose that in the presence of a given other person we experience strong emotions—sexual desire, perhaps, or keen admiration, or aesthetic rapture over physical beauty. But whether, when, and how often we shall re-experience these feelings remains our choice. Certainly all of us have feelings that we choose not to repeat by choosing to avoid the circumstances that produced the feelings.

At a deeper level, a distinction is to be made in the case of each of us between feelings that are simply had and feelings that are had and identified with. Our identification with only selected feelings that we experience is a matter of choice. To acknowledge one's feelings for another as love of the other is an identification of this sort, combining choice with feeling. Hence the distinction between feeling and choice cannot be made into the contradiction that Vannoy alleges.

Our last example is Vannoy's purported "Altruism vs. Self-interest" contradiction. "Altruism" is commonly understood to be concern for others to the exclusion of concern for oneself, and "egoism" is commonly understood to be the converse. But Vannoy ought to be critical of these understandings, for they are abstractionist fallacies. Concern for others implies concern for oneself in the following way: to be concerned for the well-being of another is to want to contribute to that well-being; but we can contribute nothing of worth to others unless we have taken the trouble to cultivate resources in ourselves, and this implies self-concern. Because concern for others presupposes self-concern, Vannoy cannot demonstrate the egoism (exclusive self-interest) of love by detecting in it elements of self-concern.

Vannoy appears to be writing for adolescents (of whatever age), for he identifies "fulfillment" with novelty. Adolescence, as exploration of the world in search of itself, is by its nature wedded to novelty. Whatever bears no fruit in a week exhausts its patience, and enterprises whose first fruits are plucked are discarded for new enterprises. But one outgrows this stage in the recognition that exploration furnishes the conditions for sound choice. Sometimes one recognizes this indirectly by uncovering the monotony in overextended exploration. Kierkegaard was correct in suggesting that Don Juan's eventual despair is boredom; try reading the *Memoirs* of Jacques Casanova—*all* of them. And the perpetuation of novelty is at the expense of other values, some of which are inseparable from commitment and fidelity.

This way of thinking throws us into the camp of the sexual "conservatives" that Vannoy contrasts unfavorably to his own "liberalism." But he paints conservatism as at bottom disgusted by sex, prizing security above all else, and existing as a thoughtless product of repressive social conditioning. He fails to recognize the possibility of choices to which one may commit oneself because, on the basis of exploration, one understands them to be right choices.

As a self-professed liberal, Vannoy is not liberal enough by half. For what liberalism entails is the ability to recognize value in modes of experience different from one's own. Vannoy gives us only caricatures of alternative modes.

David and Mary Kille Norton are coeditors of Philosophies of Love.

Natural Rights, Natural Resources

Bureaucracy vs. Environment.
Edited by John Baden and Richard L. Stroup.
Ann Arbor: The University of Michigan Press. 1981. 238 pp. $15.00.

Reviewed by Bruce Yandle

In 1978, the Environmental Defense Fund petitioned the federal Environmental Protection Agency to encourage the use of auction markets for the allocation of limited air-pollution rights. Some economists and conservative thinkers were puzzled. Why would environmentalists support markets instead of the typical command-and-control approach to regulation?

The authors of the 14 essays in *Bureaucracy vs. Environment* know the answer to the question, as do a few other people. The outcome of a market process where property rights are defined and enforced, though not perfect, is superior to the result obtained through bureaucratic allocation. On reading this generalization, some might react by saying it just isn't so. What about the national parks and forests, America's energy policy, clean air and water, and recreational resources? What about future generations?

These questions identify just some of the many topics analyzed in this book. The analyses are well documented, objectively constructed, and balanced. In other words, the reader will not encounter a series of polemics organized to elicit a final free-market hallelujah. Instead, one finds careful logic, data taken from reports of the agencies being analyzed, recommendations for reform, and occasional admissions that markets aren't perfect either.

Property-rights institutions and the ac-

companying recognition of opportunity costs serve as a common theme for the initial papers in the collection. Echoes of the theme are encountered throughout the book.

Since all natural resources were initially available on a common-access basis—and many natural assets continue to be allocated on practically the same basis—attention to the "commons" problem and the evolution of property institutions should and does receive prominent attention in the book. But the analysis doesn't end with philosophical arguments about the rent-enhancing qualities of efficient property rights. Instead, the reader enjoys learning how transferable rights were developed by early cattlemen in the West and by Navajo Indians who wrestled with grazing rights, and how experiments with implicit rights and user charges may become a useful mechanism for improving the management of environmental use. In each case, the awkward transition from common access to private property is given appropriate attention.

On the subject of regulating energy resources, the reader will find two essays. One provides tantalizing tidbits about America's early regulation of whale oil, then builds an analysis of natural-gas regulation. Another examines coal gasification and identifies its losing aspects for all parties concerned. Papers on America's romance with dams and flood-control projects, grazing policy, and timber management round out the analyses related to specific resources.

Two essays put the finishing touches on the collection. It is there that the reader learns about the not-so-silent bids of future generations when markets for natural resources are allowed to operate. And there, too, a summary and final reminder of the collection's focus is provided.

The essays in the collection, edited by John Baden and Richard L. Stroup—who are also among the contributors—are generally well written; are very accessible to readers who do not have specialized knowledge in economics, natural resources, or any technical area; and offer a refreshing balance of ideas to those who may tire of emotionless recitations about market efficiency and of emotional sermons about environmental degradation.

In short, upon finishing the book, one has not only a certain feeling of optimism about man's progress in dealing with scarcity but a clearer recognition that much can be gained by focusing on the process chosen to deal with the problem rather than on the problem itself. I predict that those who read the essays will leave markers and notes along the way, reminders to reread, copy, and use at a later date.

Bruce Yandle is a professor of economics at Clemson University.

Bad Dreaming About Computers

Electronic Nightmare.
By John Wicklein.
New York: Viking Press. 1981.
282 pp. $14.95.

Reviewed by Carl Helmers

The title of a book often tells a great deal about its content. John Wicklein's *Electronic Nightmare* is an example of this premise. Before we open the volume, we know the author has a strong point of view and will not hesitate to place that view in the reader's eye. But there is a problem with rhetorical writing of this sort: it is easy to let the point of view dominate the argument, occasionally at the expense of truth.

The subject matter of *Electronic Nightmare* is the new electronic and computer communications media, and the book attempts to provide background information on the subject. It is organized as an introduction and conclusion with a series of anecdotal essays sandwiched in between. We are reminded of a series of Sunday newspaper magazine articles bound up in book form.

We start with the introductory essay, "The New Communications: Promise and Threat." The wonders and threats of Qube, the system installed as two-way cable television in Columbus, Ohio, is the second major essay. The history of England's Videotex system—and its slow sailing in North America because of the lack of a central government agency—provides the third essay. Other topics include the idea of electronic newspapers, satellite television direct to consumers, the red herring of insidious data banks, etc.

The dominating premise of the book is a rhetorical suspicion of all new ideas and new ways of doing things. It takes little time to realize the filter through which author Wicklein views the world. He as much as states this filter early in the first chapter: "We have to make ourselves aware of such technological 'advances' and their dangers to freedom *before* they are presented to us as *faits accomplis.*" If it hasn't been done before, we had better have some controls in place before it *is* done.

The solutions to many of these problems is—of course—an all-knowing government agency. Wicklein speaks glowingly of a European-style Post, Telephone, and Telegraph administration. In his view, it is downright uncivilized that such an agency does not yet exist in the United States. The reader is left with the strong suspicion that Wicklein would be pleased to serve as a consultant to Congress on the matter of creating it. He is no doubt sincere enough for the job.

Knowing the filter, the book can then be read for its true worth: a very selective set of information about mass-communications technology and how it is developing. The selectivity may be based on a lack of knowledge; but whatever its source, readers should be aware of it. I find it personally hard to believe that the author could write such a book in the 1979-81 period without being aware of personal computing devices and their meaning in the context of his concerns.

Why worry about that great data bank in Washington when every citizen is armed with a personal data bank of his own? The relatively free and liberal individualism of North America already has fostered the installation of more than five million small computers—with the implication of five million highly decentralized private data banks. Yet Wicklein makes no mention of this in regard to the problem of centralized information providers.

The author's selectivity may have caused him to miss the most important implication of the personal computer in communications: the privately programmed computer can be used to simulate (automatically) an "acceptable" message in a network context. If I want to send a message today that would take millions of years to decode with today's best computer hardware, a $2,000 personal computer is all I would need to encode its semantics. But such private message encoding would run counter to the "need for" a central all-knowing agency.

The argument of this book is really an argument for centralization. Although written with the noble goal of raising citizen awareness of authoritarian awfulness, it proposes more of the same.

Carl Helmers, founding editor of Byte *magazine, publishes the* Carl Helmers Personal Computer Letter.

Uncloaking the Dagger

Facing Reality: From World Federalism to the CIA.
By Cord Meyer.
New York: Harper & Row.
1980. 433 pp. $15.95.

Reviewed by William Marina

For more than a quarter of a century (1951-77) Cord Meyer served as a high-ranking official in the Central Intelligence Agency. During six of these years he headed the section involved in clandestine, or covert, operations. From at least three different levels this volume offers some interesting insights into the history of the Cold War and the foreign-policy options now facing Americans.

The first part is a very candid autobiography. Severely wounded in the war against the Japanese, Meyer returned to study toward a graduate-school education, while working to raise a growing family. Several of his writings as a journalist led to his involvement in the movement for world federalism. His first contact with communist tactics came in attacks on him as a United World Federalist and in communist efforts to take over the American Veterans Committee.

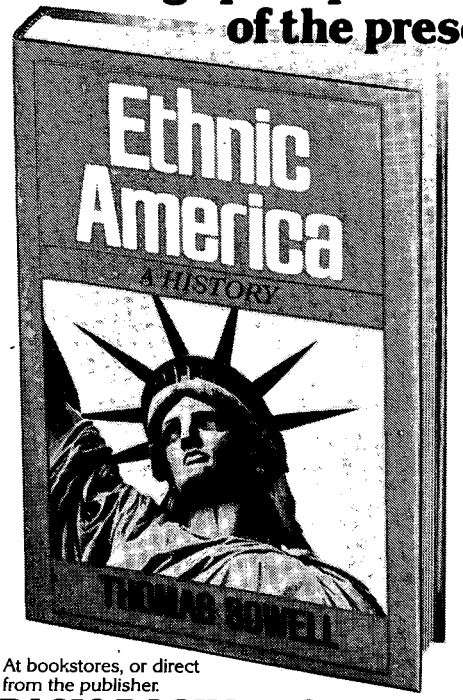
It was in the midst of the Korean War that Meyer gave up his pursuit of a doctorate from Harvard and went to Washington to seek a position somewhere in the foreign-policy bureaucracy. Clearly, his social-educational "Eastern Establishment" background and contacts (St. Paul's School, Harvard) were of considerable advantage in landing a position with the CIA. And from the beginning he was assigned to covert operations.

Perhaps the most interesting aspect of this early part of his career is that Meyer, due to his past associations, almost fell victim to one of the "witchhunts" of the McCarthy era. His reprinting of the memorandum of charges against him offers a glimpse of the innuendo and hearsay that often served as the flimsy basis for such accusations. He suggests that Allen Dulles's support of those whom Dulles had personally investigated and believed innocent helped the spirit and recruitment efforts of the agency, while John Foster Dulles's lack of such support within the State Department led to a decline there.

A second facet of the book is Meyer's recounting of many CIA activities during the Cold War years. Unintentionally, he provides some remarkable insights into the worldview of Cold War liberalism. This was remarkably like the paternalism that motivated domestic welfare programs. For Cold War liberals, interventionism, in a variety of methods, was essential: because the Russians did it, so must we. Meyer is quite correct that the CIA never carried on activities that had not been approved at the level of the presidency; but on the other hand, he appears totally unaware of the possibility that funneling monies into the National Student Association, for example, aided in the erosion of the notion that universities ought to be something other than simply another instrument with which to fight the Cold War. Under Cold War liberalism not only could almost any action to counter the Russians be justified; the notion that *only* government, and not voluntary associations of free individuals, could bring together the financial and organizational assets to wage such a battle became self-fulfilling.

Lower taxes, or incentives, could have made it possible for the private sector to mount the same kind of communication effort against the Iron Curtain areas as was subsidized by the CIA. Recent studies of foreign aid, for example, have conclusively demonstrated that the churches have built schools and developed other

"An important book... a signpost pointing to the probable future direction of the present national Administration."
—David Herbert Donald, front page, New York Times Book Review



David Herbert Donald's review continues: "The heart of Mr. Sowell's book consists of separate but interrelated chapters that trace the historical experience of nine of the largest American ethnic groups....ETHNIC AMERICA is at once useful as a concise history and significant as a quiet but powerful attack on liberal beliefs about minorities, racism, segregation, and affirmative action."

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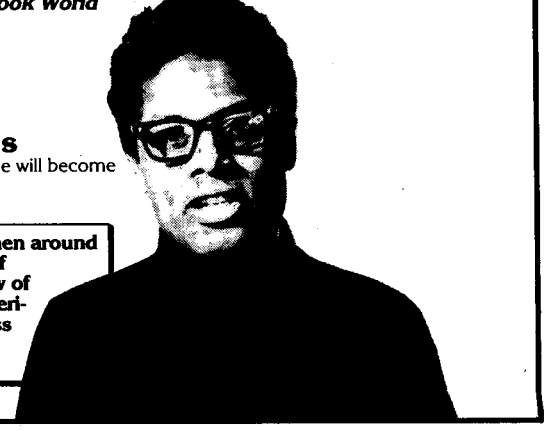

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kinds of appropriate technology at far less expense and greater efficiency than governments—either our own or the Soviets'—which were usually competing in some ostentatious display of spending, including paying off local politicians.

At the political level Meyer provides an abundance of evidence of the left-wing, liberal, progressive bias of the CIA. This was the thrust of the CIA's financial intervention in Chilean elections. Meyer argues that such a "middle-of-the-road" intervention ought to have been undertaken in Nicaragua to get rid of Somoza and prevent the victory of the Sandinistas. For Meyer, it is not "facing reality" to overlook the American role in placing the Somoza family in power and sustaining them over the years. As Meyer does note, there was, up to the very end, a considerable argument from anticommunist conservatives, within and without Congress, that Somoza deserved our continued support.

The final part of the book recounts the growing Soviet interventionism in the so-called Third World, especially Africa. In addition to this "geo-political" analysis are chapters on the Soviet *apparat*, on both the government and the KGB, which handles state security, spying, and intelligence.

The burden of Meyer's argument is a plea that we put the era of Vietnam and Watergate behind us. Any abuses by the agency have been eliminated, and, given the growing scale of Russian intervention, some kind of ability for covert intervention must be restored in order to counter this offensive. He considers it naive to suggest that interventionism either overt or covert, is in the long run counterproductive.

But interventionism does simply breed more interventionism! This is what the Soviets are finding out from Poland to Afghanistan. In the same way that we do not have the wisdom to build a welfare state that is more productive than the market, neither do we have the wisdom to intervene in foreign affairs to achieve the ends we would like.

Meyer admits that with all its considerable structure (and high cost) for gathering intelligence, the CIA was badly out of touch with events in Iran. This was also the case with the situation early on, and later, in Vietnam. It is probably too much to hope—since power does tend to corrupt—that the military and intelligence bureaucracies will give up their penchant for interventionism, especially the covert variety that denies the American people any debate over the issues. If we are to have that capacity, it might be best to remove such debate from those institutions that are also involved in gathering and assessing the information. Meyer notes that this was a reason for establishing the CIA above other agencies involved in gathering information as well as making policy. One might build a good case to demonstrate that the appeal of "doing something"—that is, intervening—has led to a poorer level of intelligence analysis than might otherwise have been undertaken.

In place of governmental interventionism, overt or covert, which reflects so well the paternalism of the liberal mentality, we might ask that our "free" allies take more of a responsibility and cost for their own defense. Granted, this would mean shared decisionmaking for American policymakers long accustomed to directing rather than consulting.

Meyer exercised power with more balance and restraint than most of us might have done, and he does admit the present tensions in the Soviet system

Book Hints

a selective mention of books received

High unemployment, high interest rates, and recessionary pressures continue to dominate the domestic picture. In *The Crisis in Economic Theory* (New York: Basic Books, 1981, 226 pp., $19.50), edited by Daniel Bell and Irving Kristol, 12 leading scholars explore alternative theories in an attempt to construct a credible reflection of today's economic reality. One chapter, by Israel M. Kirzner, is devoted to examining the "Austrian" perspective.

Also of interest regarding the current economic and political situation is Stephen Breyer's *Regulation and Its Reform* (Cambridge, Mass.: Harvard University Press, 1982, 472 pp., $25); Breyer was instrumental in airline deregulation and contributed to a chapter on that subject in the Reason Foundation's *Instead of Regulation.* And in a little essay published by the Institute of Economic Affairs, *Monopoly in Money and Inflation* (London, 1981, 68 pp., available through Transatlantic Arts, $5.95 paper), H. Geoffrey Brennan and James Buchanan consider the implications of the government money monopoly for the economy generally. Though focusing on British unemployment and inflation, F. A. Hayek's essay, *1980s Unemployment and the Unions* (London: Institute of Economic Affairs, 1980, 64 pp., available through Transatlantic Arts, $5.95 paper), provides further insight into the economic ills currently troubling us.

If the reader finds the arguments of all these economic treatises obscure, Maurice Levi's *Economics Deciphered: A Layman's Survival Guide* (New York: Basic Books, 1981, 306 pp., $13.95) may come in handy. Witty, as well as informative, the book is intended to give the bewildered noneconomist sufficient knowledge of economics to understand the important economic issues of today.

Another interpretation for the layman is provided in *The New Tax Law and You* (New York: New American Library, 1981, 180 pp., $2.50 paper) by investment writer Jerome Tuccille, describing how the new tax law works and which investments have become extremely attractive because of it.

For gun owners (or would-be owners) *The Rights of Gun Owners* (Aurora, Ill.: Caroline House Publishers, 1981, 211 pp., $5.95 paper) presents a comprehensive reference of federal, as well as state and local, gun-control laws. The author, Alan Gottlieb, is chairman of the Citizens Committee for the Right to Keep and Bear Arms and president of the Second Amendment Foundation. Researchers interested in firearms laws may also find Gottlieb's work, with its extensive provision of references, useful.

Mel Tappan looks at weapons from a different perspective in *Tappan on Survival* (Rogue River, Oreg.: Janus Press, 1981, 195 pp., $7.95 paper, distributed by Caroline House Publishers). Tappan gives clear guidelines for selecting weapons for self-protection. He also provides helpful hints for those concerned about surviving a future nuclear war or economic siege, outlining basic procedures for storing food, setting up communication systems, and provisioning oneself with essential books, tools, medical paraphernalia, and shelter.

If one's interests are more in the past than the future, Herbert Storing provides a scholarly examination of anti-Federalist writings in *What the Anti-Federalists Were For* (Chicago: University of Chicago Press, 1981, 111 pp., $4.95 paper). The work is Storing's introduction to his three-volume collection of all the anti-Federalist writings in their original form.

Another book of scholarly interest is a beautiful reproduction by LibertyClassics of the complete text of *An Inquiry into the Nature and Causes of the Wealth of Nations* (Indianapolis, 1981, 2 vols., 1080 pp., $11 paper), by Adam Smith. It includes a lengthy introduction that places Smith's economics in a wider social-science perspective.

—L. S.

make possible some future changes. But a return to covert actions will cancel those opportunities. A whole network of relationships at the people-to-people level, sometimes derided as detente, would in the long run be far more effective. Far from "doing nothing," such approaches, whether in Cuba or Russia, set in motion their own dialectic of dynamic tensions. Robert Wesson has suggested that recognition of Cuba, for example, would offer a much more creative challenge for change, and Laurence Beilenson (in *Survival and Peace in the Nuclear Age*) has sketched out a number of approaches through which we might take the initiative without resorting to the kind of imperial interventionism specialized in by the CIA.

William Marina is a contributing editor of REASON *and a professor of business history and general systems analysis at Florida Atlantic University.*

LETTERS

(Continued from p. 9)

privilege for a few powerful and influential individuals—could not have arisen from a wholesale democracy. Can one imagine old John D. bribing everyone in the United States—paying, say, $5 a vote ($30 nowadays, given inflation) on a referendum, so that he could then exploit all of them...?

A constitution is no guarantee against the violation of rights. It can itself *incorporate* and *demand* the violation of rights, such as taxation to fund the government....It can be amended, interpreted, ignored. It is a piece of paper. What matters are the *ideas* held by the people, not the structure of government....

Hans G. Shroeder
Forest Grove, PA

Mr. Machan replies: But "wholesale democracy" should *not* be understood as "direct democracy." Whether people vote directly on issues or vote for representatives who then vote on issues is an interesting issue but not the one I was focusing on. Wholesale democracy means that everything, or at least far too many things, are open to vote, in contrast to a system wherein certain things—in particular, people's rights—are *not* open to majority decision. How can voting, whether direct or indirect, be limited in this way? That is the purpose of a constitution. Of course, specifying such principles in a constitution does not guarantee against abuse and corruption; still, it is better than leaving them hidden.

As to Proposition 13, as far as I am concerned, that was a move that can only be justified once the provisions of a given constitution have deteriorated to the point of no return. No, I do not think voting on other people's incomes and holdings is a good thing—but sometimes it may be the only thing left.

South African Schooling

Your August 1981 issue (page 6) corrects a minor error in your April Trends column, which reported on private enterprise setting up the first private high school for blacks in South Africa. Actually, there are and have always been many private (nongovernment) black (or mixed) high schools in South Africa in various forms, such as conventional schools, charity schools, mission schools, and correspondence schools. Indeed, I frequently make the point that the high black literacy rates in southern Africa (compared with the rest of Africa) are thanks to the relative and simultaneous absence of government schooling and controls over private education until the 1956 black education "reform."

I do not detract in any way from the unusually impressive new school of which you wrote and on which I am well informed, having been one of the invited

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guests at its opening and having followed its progress with keen interest. Regrettably, pseudo-liberal demands for "free and compulsory" (like a jail sentence) black schooling are due to be met by government, at the expense of private education in its many, varied, and practical forms.

Leon Louw
Norwood, South Africa

Underhanded Grammarian?

Richard N. Mitchell's "A Little R and R" (Language, Jan.) suffers from its own criticisms. As aptly illustrated in John Ruskin's quote, language truly communicates when presented accurately, clearly, powerfully, and with rhythmical order. Also given is (I must assume, for it is out of context) an educational grant's submitted report on its findings. Unfortunately, Mitchell freely adds his own commentary to his analyses.

Before introducing the statement that generically disturbs him, Mitchell deviates from the article's supposed structural analysis to one of educational criticism. Such statements of his as "practitioners of modern educationism, who consult only each other" and "the salaries of swarms of administrators and professors of imaginary subjects" poisons the well before he raises his first tangible evidence, the excerpt.

By Mitchell's own quotation of Ruskin, the reader may assume that a statement is powerful by its simplicity and its rhythmic order. An extrapolation of Ruskin's quote may be that well-placed declarative sentences in tight paragraphs weave accurate, clear, powerful, and rhythmically ordered critiques. In a word, terse. Discussions of ignoramuses, twits, and dupes is emotionally intense but is not logically terse. In fact, his emotional intensity is especially noticeable by glancing at the page: the brazen overuse of italics.

I must conclude that Mitchell is a deceiver himself, as he charges of educators: masquerading an informal critique that appeals to the emotions as a terse, formal critique appealing to reason.

Stephen B. Hodgkins
Kinston, NC

The Order of Disorder

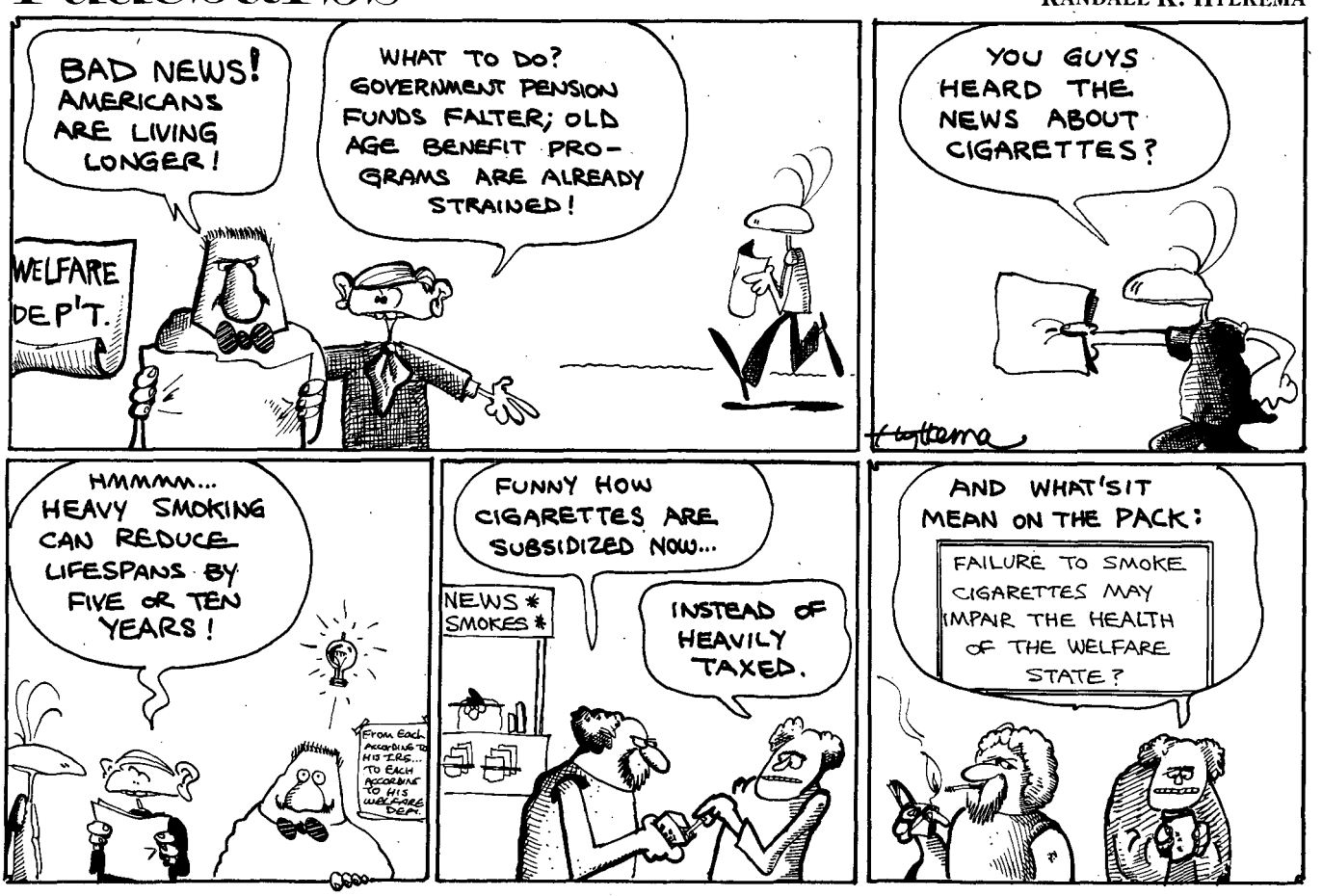
Your Language column makes inspired use of the insight that logic encourages freedom while illogic leads us to follow socialism. Richard N. Mitchell is especially brilliant ("A Little R and R," Jan.) in choosing a passage from educationese rather than politicspeak and relying on readers to see the connection.

He fails, however, to define the hierarchy under direct ridicule: a *teacher* has been to college, an *educator* has a masters degree, and an *educationist* (the farthest Mitchell dares go) boasts a you-know-what. I have hung around the university too long and know also the dread *educationalist*, the prof of 'em all.

Leonard Rubin
New York, NY

rudebarbs

RANDALL K. HYLKEMA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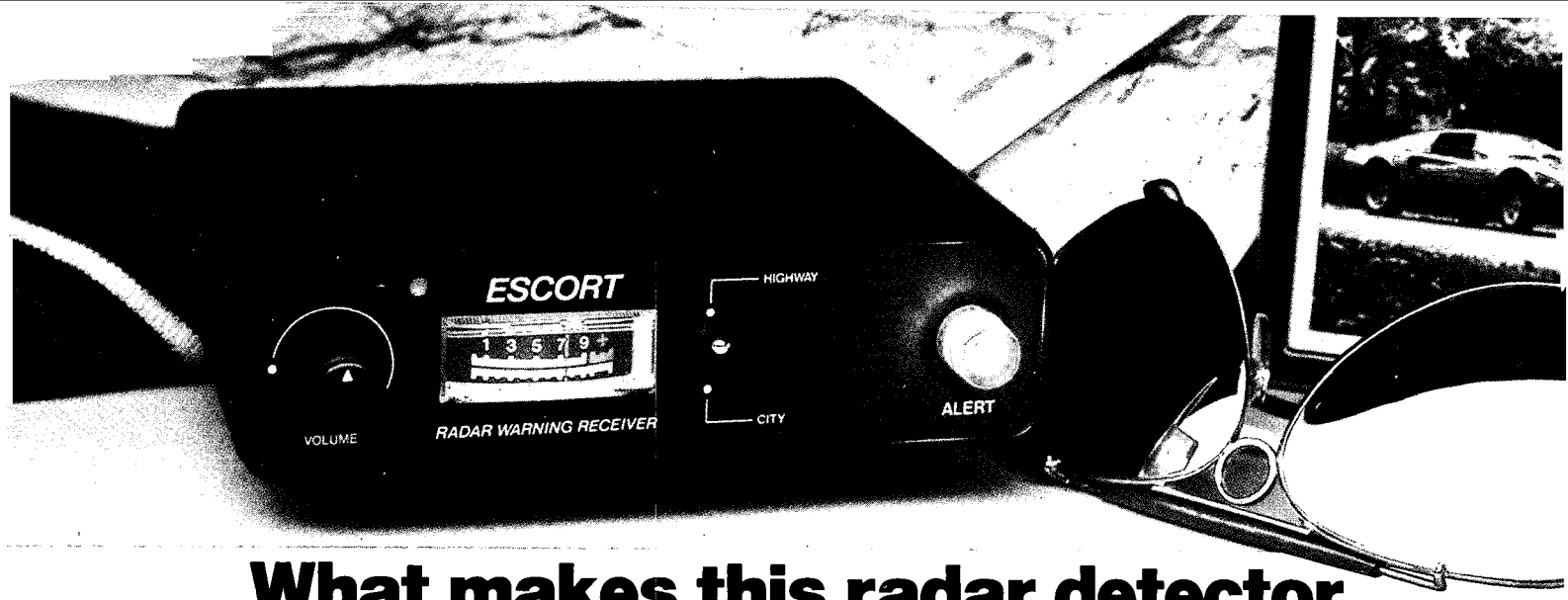

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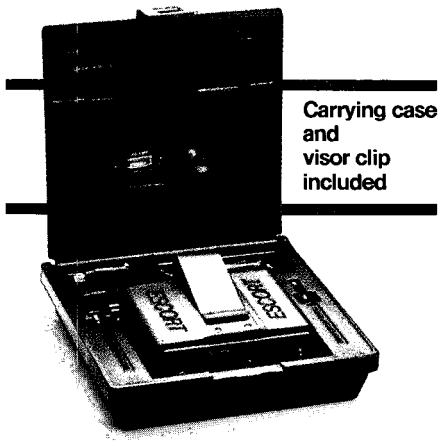

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